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## FUNDAMENTAL FACTORS IN THE PRESENT ECONOMIC SITUATION IN EUROPE

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**T**HE future prosperity of the United States is inextricably interwoven with the course of events in Europe.

Europe was our greatest customer before the war, and vastly increased her purchases during the war. So great were her demands that the United States was compelled to enlarge its capacity in many lines to supply them. Since the armistice the demand has been maintained, and in certain lines even up to the present moment. But it is now mainly a demand for foodstuffs and raw materials, while our markets in Europe for manufactured articles are dwindling.

As a plain business proposition we are vitally interested in studying the various factors in the situation abroad which will in any way affect the fortunes of so important a customer, because our own course must be influenced by European developments. Is our customer solvent and worthy of further credit? To what extent will the poverty of Europe compel abstinence and sacrifice in the use of goods formerly purchased from us? Are conditions, political and social, sufficiently stable to warrant the extension of credit, and should such credits be short-term purely commercial credits, or should they be capital credits? And finally, as a creditor nation and the seller of raw materials and foodstuffs, shall we open our domestic markets freely to the manufactured goods of Europe in direct competition with the products of our own factories? If we refuse to do so, and erect a prohibitive tariff wall, how can we expect to be paid for what is now owing us, and for future sales of raw materials and foodstuffs? It is axiomatic that balances in international trade can only be discharged in three ways: by the shipment of gold, by the shipment of goods, or by the giving of evidences of indebtedness, bills, notes and bonds, and these must be paid sometime unless issued in the form of securities representing permanent capital investments.

Our future course of action must depend upon a clear understanding of our own situation. The United States is the richest nation in the world, both in present capital and in potential resources. We possess four-ninths of the world's gold. Europe is our debtor to the extent of approximately fifteen billions of dollars, ten billions to our government and at least five billions on trade balances and private loans.

Our production may be considered along three lines. We are the world's greatest producers of foodstuffs, and have large quantities for export. We likewise produce a large surplus of raw materials, cotton, tobacco, forest products and minerals. An abundance of coal, iron and timber, and cheap and effective water-power development has made this country the first manufacturing nation of all time. In spite of our rich endowment and the variety of our resources experience has shown us that depression in any one of our great lines of production affects the other sections of the country. If the farmer can not sell his foodstuffs for good prices his purchasing power is diminished so that he can buy less manufactured goods, and vice versa. Many more people in the United States are engaged in producing foodstuffs and raw material than in manufacturing. If they can be kept prosperous by finding markets for their surplus the purchasing power of our great domestic market for manufactured goods may be maintained.

The extent to which the equilibrium of this domestic market may be affected by European competition is sure to arouse much controversy. The answer will involve a certain amount of conjecture and guesswork, but a study of fundamental factors, in the present situation, is essential to furnish any kind of a basis for sound judgment. The ideal toward which we must work is to maintain the purchasing power of our domestic markets; to protect them from competition that may demoralize prices, and at the same time to broaden the markets abroad for our surplus foodstuffs and raw materials, and for such manufactured goods as can possibly meet world competition.

With these points in mind let us consider briefly some of the important factors in the present European situation in so far as they have a bearing upon future developments in the commercial and financial relations between ourselves and our best customer. It may be well to emphasize that the statements and

conclusions in this paper are based upon a study of conditions in the summer and early fall of 1920, and that the whole European situation may still be regarded as in a state of flux and subject to kaleidoscopic changes so that factors which may appear fundamental and of decided importance in the present situation may, in six months or a year, entirely disappear or be replaced by others.

### *Political Conditions*

Europe may possibly remain in a state of political unrest and instability for many years. Some progress toward political stability has been made since the armistice, but the hatreds and animosities of war are not healed in a few years. Five new republics in Central Europe are endeavoring to organize new administrative machinery, and to build governments upon political theories new to the great masses of the population. The first ten years of our own country were years of strife and struggle with disorder and lawlessness prevailing from time to time in various parts of the country, and yet how easy was our problem, with our great natural resources, compared, for example, with that of Austria, hopelessly burdened with debt, with no credit for the purchase of raw materials or coal, stripped of its productive resources, a beggar nation dependent for its existence upon the world's charity.

The state of uncertainty caused by mutual suspicion of motives, by the dissatisfaction with the unnatural boundaries imposed by the Peace Treaty, and by the constant intriguing among nations for position and influence, is retarding the disbanding of armies and the reduction of armaments.

On August first civilization was in danger. The defeat of the Bolsheviki before Warsaw may well rank with the defeat of Attila and his Huns as one of the decisive battles of the world. While the danger to Western Europe of bolshevism, as such, may seem to be past, yet it will take time to straighten out the Russian situation and no condition of permanent stability in Europe can be expected until Eastern Europe is reorganized and reconstructed along sound economic and social lines.

But no permanent peace can come to Europe until the Peace Treaty is modified, and Germany's indemnity fixed within limits that make its payment possible. There can be no eco-

nomic or financial rehabilitation of Central Europe with the blank check provided by the Peace Treaty out against Germany. As a German statesman in a personal interview said: "What is the use of trying to work out any comprehensive plan for financial or economic reconstruction? We shall be penalized for any progress made no matter at what sacrifice. Any improvement in our condition will only add to the totals of our indemnity bills."

A cause for optimism lies in the fact that the leading men of Europe, bankers, statesmen and business men, recognize the necessity of modifying the Peace Treaty, fixing the indemnity bill, and helping Germany to get back on its feet economically. There are signs, too, that France is beginning to realize that the economic ruin of Germany means her ruin also.

#### *Social Conditions*

The war has developed a solidarity of purpose and a sense of class consciousness on the part of the masses throughout all Europe. Labor has dictated to the government of England on more than one occasion, and concessions have not increased production. Manufacturers in England estimate efficiency at not over 65 to 70 per cent as compared with pre-war standards. In France the firmness of the government has for a time at least brought about a healthier condition. The government from the radical labor standpoint is reactionary, but favorable economic results are being obtained.

Belgium is working hard, and is nearly back to a pre-war basis, but labor is alert and will lose none of the advantages it has gained during the war. In Germany the eleven million members of the federated labor unions hold the key to the future of the country. Whenever they will it, they can overturn the government. At the present time the Socialist party, to which they belong, has no representation in the cabinet. They have refused to share in the responsibility of the government, preferring to remain the party of criticism. The laborers of Germany are neither bolshevists nor communists; they are well led and appreciate the difficulties ahead.

As sane and accurate an analysis of his country's position as could be made was given me by one of the foremost of Germany's labor leaders. He said:

Germany is today the poorest nation in the world. We do not yet realize how poor we are. We have fallen from the heights to the lowest depths. The fault was that of our leaders, and, of course, of ourselves for following them. We have lost our colonies, rich parts of our own country, our merchant marine, our capital, and our machinery of doing business in foreign countries, a great part of our natural wealth, and have incurred a debt which is impossible of payment. Our currency is worthless, and financially we are worse than bankrupt. We have 58 million people. Only 40 million can be supported on what we ourselves can produce. What is to become of the other 18 million? They can not migrate because they haven't the means, and where would they go? All these 18 million possess is the work of their hands, and their only means of obtaining a living is to work hard and save. When I say save I mean real saving. This country is too poor to import coffee or tea or sugar. We can not afford even the comforts of life. For this generation of Germans there is nothing ahead but work and a saving of everything beyond what is absolutely necessary for life. But the rich must save too, and there must be an end to profiteering. We must have credit for raw materials, therefore we must hold down importations and consumption. We must increase our exports, and develop a favorable balance of trade. Coal is our chief commodity with which to discharge our international debts. Therefore our coal mines should be nationalized and all profit be saved to the government, the same with the potash industry and other great exporting industries. If we all work and save, the rich and the poor, we can make Germany again a fit place for our children to live in.

If this man really represents the spirit of German labor, then we may well anticipate an industrial revival in Germany which will make her a formidable competitor in international trade. Manufacturers in many lines spoke of the generally good spirit and efficiency of German labor, always allowing for the physical deterioration resulting from the war. The eight-hour day has become effective in practically every country. It has resulted naturally in a decrease in production, but in parts of Germany laborers are voluntarily working ten and even eleven and twelve hours where the opportunity affords. The government, I was informed, exempts the proceeds of these extra hours from the income tax.

The eight-hour day has enormously increased the cost of government everywhere, and these big government budgets are the most serious problems in Europe today. Huge taxes have been levied in every country. Some laws are merely on paper, the task of collecting being too great an organizing problem to produce as yet substantial results. In other countries the tax-collecting system has been unable to cope with the situation. France is just beginning to collect her taxes. Belgium has



comprehensive tax laws, but portions of them are apparently difficult of interpretation and incapable of administration. In Germany a whole new system is being organized. Under the old regime, the various constituent parts of the Empire collected most of the taxes, now the federal government is to undertake this task.

Where the taxes are collected, they seem to encourage still further governmental extravagance and waste. The hope for the future lies in the fact that there seems to be a general understanding and appreciation of the seriousness of the problem on the part of all classes, and in the various estimates of expenses for 1921, there is on paper at least an attempt to bring about substantial decreases.

The most encouraging development, from a social and political standpoint, is the crystallizing of sentiment in socialist and labor circles against bolshevism and communism. There has been a movement in every country directed toward segregating the radicals and driving them out of the Socialist party. This started in France. In Germany the split in the independent Socialist party took place several months ago. As one labor leader put it: "These bolshevists are very noisy, but when we get them out where they can be counted we are surprised to see how few they are."

The tendency to isolate the radicals is shown by recent events in Czechoslovakia and in Italy. The recent election in Austria proved them to be in a hopeless minority, surprising even the communist paper into the comment that communism in Austria seemed to be dead. But while labor will not accept bolshevism or communism it will endeavor to exact a greater share in the proceeds of production, and better working conditions. It will demand a raising instead of a lowering of living standards, and may be found generally united in efforts to bring about nationalization or semi-nationalization of industries looking toward giving labor a greater share in profits.

The seriousness of present conditions, the difficulty of obtaining enough food, the danger of unemployment due to a lack of coal and raw materials, the shaken credit of continental Europe, are factors which, for the time being, will tend to keep labor submissive and at work. In an attempt to get a cross-section of German opinion, several hundred people,

laborers, unemployed, mechanics, railroad men and others in many lines were asked a list of questions. The inevitable answer in every case to the general question as to conditions was "if we can only get a little more to eat then things will be better." There was no sympathy with bolshevism, and a general expression of a willingness to work.

Italian labor leaders disclaimed any thought of confiscation of property, or communism in the workmen's seizure of Italian factories. They took this action as a means of enforcing their demands for an increase of pay which was necessary to enable labor to obtain enough food to live.

The great mass of labor in Europe is willing to work, asking only a living wage and the opportunity. This opportunity is measured by the supply of raw materials and coal.

#### *Financial Conditions*

Europe's present financial condition and her future prospects are important to us as her chief creditor not only from the viewpoint of her ability to pay her past debts, but also in determining whether to advance her still further credits so badly needed for her rehabilitation.

The value of her currencies in international exchange concerns us vitally, as it bears upon the cost of production of goods which will be offered for sale not alone in foreign, but also in our home markets.

To enter into a detailed analysis of Europe's financial condition is foreign to this discussion. A few essential facts and conclusions may be stated as fundamental and of vital importance. With few exceptions, the budgets for the coming year are not actually balanced, and in many cases where a theoretical balance has been shown it is largely based on taxes which must be collected with deficient tax machinery.

In Germany and Austria the financial situation is becoming progressively worse. The printing presses working night and day add to the governments' liabilities with no corresponding increase on the asset side of the ledger. The deficit of the German railways for this year will exceed sixteen billion marks. The Italian deficit, on account of the bread subsidy, is estimated at over six billion lire. Austria is even more hopeless, and the finances of Poland and Hungary are in a similar state of hopeless disorganization.

No country in Europe has had a favorable balance of trade this year. Czechoslovakia hopes to show a favorable balance next year; Sweden has good possibilities, and while the statistics are such as to give no reliable information, it is stated that exports from Germany in the last three months have exceeded imports. Belgium, France and England will unquestionably reduce their adverse balances, and this statement probably holds good for most of Europe. The sharp decrease in commodity prices in the last few months will be of enormous help to Europe, because the unfavorable balances have been largely increased by the high prices of coal, foodstuffs and raw materials. European exchanges, therefore, may reasonably be expected to show improvement during the coming year in the countries where the printing press is less active.

International exchange values are based not only on balances of trade, but on the intrinsic value of the currency itself as measured by its security and cover. It is evidenced by its purchasing power as compared with the purchasing power of intrinsically sound currencies, and by this test we can see little hope for the German mark or the Austrian krone.

This is important to us as bearing upon the cost of production. If wages and other manufacturing costs are paid in depreciated currency the result may be that production costs, even after paying for raw materials on a gold basis, will be so low as to make competition on the part of sound-currency nations impossible.

A table of wages based on exchange equivalents in American money as of July and August may be of value:

	<i>Unskilled Labor Per Day</i>	<i>Skilled Labor Per Day</i>
United States .....	\$3.75	\$6.50
England .....	1.00 to \$1.85	2.25 to \$2.50
France .....	.70 to .85	1.60 to 2.00
Belgium .....	.60 to .75	1.10 to 1.30
Denmark .....	1.90 to 2.10	3.75 to 4.00
Sweden .....	2.00 to 2.25	3.75 to 4.25
Germany .....	.60 to .70	1.30 to 1.75
Czechoslovakia .....	.55 to .65	1.10 to 1.25
Austria .....	.20 to .30	.45 to .60
Italy .....	.90 to 1.10	1.55 to 2.00
Switzerland .....	2.25 to 2.40	3.20 to 4.00

As exchange ratios with the dollar improve the disparity between United States and European wages will tend to grow less, but it must be remembered that before the war there was a large difference, made up, it is true, in part by the greater efficiency of American labor and our development of mass production. But the war has taught Europe something about mass production too, and even with improving exchanges the difference in wages will remain considerable. In the hopelessly low exchange countries like Germany the problem will be a serious one.

In the last week in October the London papers all carried leading articles giving a list of some twenty articles of German manufacture offered in English markets at from fifteen to twenty-five per cent under English costs of production. With fifteen million ready and willing hands in Germany, and many million more in Italy and Austria the question naturally arises, what will be the effect upon our domestic markets and prices in this country, when goods made by this cheaply paid labor are pressed for sale here? To keep them out by prohibitive tariffs would take from these countries the possibilities of paying their debts. To permit their entry in sufficient quantities to bring into operation the law of marginal utilities would demoralize industrial conditions in this country and lead to business depression and disaster.

The question needs most careful study. It can not be solved by arbitrary action. One of the saving features of the situation is that Europe's own demands are large. It is, therefore, problematical how much she can export during the next few years. The quantity may be so small as not to be disturbing. All Europe needs goods, and what can be manufactured under present conditions may scarcely go round, provided the channels of distribution are improved.

The resumption of trade relations with Russia may well bring a demand that will use Europe's surplus production and even furnish opportunity to our manufacturers in many lines, for if England trades with Soviet Russia, other nations will follow, and though the United States holds off, markets for our goods are possible through the instrumentality of merchants of the trading nations like Holland, Denmark and Sweden.

Another factor must be considered. Europe's purchasing

power today is almost gone. The war has destroyed her working capital. Purchasing power is created by the margin between production and consumption. To build it up the means of sustenance are required, and the materials for production. In time, when Eastern Europe is reorganized and transportation rebuilt, Europe will be able to feel herself. Until then she is dependent upon the world, and this means the United States. The most practical help is through capital loans, that is, permanent investments. Commercial short-term credits are not alone sufficient to meet the situation because of the difficulties of repayment within the time limits of the credit. It seems quite clear, therefore, that with Europe's purchasing power diminished, we cannot continue to sell her large quantities of manufactured goods that she can make for herself, and even further, that it is economically unsound for Europe in her present condition to make such purchases, bearing in mind always the possibilities in Eastern Europe whenever conditions change permanently for the better.

But this is not the entire problem. In the markets of the world we must not only compete with cheap labor, but we are at a further disadvantage in being compelled to sell our product for dear dollars as compared with cheap pounds, francs, lire and marks. While some improvement in exchange may be expected for the reasons stated, nevertheless because of the actual intrinsic depreciation of the value of the money units of the various European countries, we shall have to accustom ourselves to thinking in a four dollar and a quarter pound, a nine or ten cent franc, and a three or four cent mark as the maximum for a number of years. Our competitive prices in the world's markets must be fixed with these values in mind. Can we overcome the handicap by better salesmanship, superior goods and improved methods of production?

As a concrete illustration of the difficulties before us, crystallized in the form of an actual example, let us consider the case of Switzerland. Allowing for exaggeration and undue pessimism, the picture as painted by several of the leading bankers is here reproduced for consideration. The Swiss franc during the war maintained quite consistently its pre-war relative value in comparison with the dollar. With the inflation due to an increase of debt, and of circulation, prices rose and wages



with them. Since the armistice Swiss exchange on America has fallen due to the needed purchases of foodstuffs and coal at the prevailing high prices. The cost of living in Switzerland is probably the highest of any place on the Continent; wages, likewise—the whitewing on the streets in Basle gets nearly four times as much, measured in dollars, as a similar laborer in Mülhausen, only three-quarters of an hour away, and about six times the German and eight times the Austrian laborer. Skilled labor in the factories is on the same relatively higher basis.

Switzerland depends for its economic livelihood upon its hotels and upon its watch, embroidery, silk and machinery industries. It is not economically self-sustaining, but must import foodstuffs, coal and raw materials. It has been the playground of Europe, and the majority of its hotel visitors have been drawn from Europe. Swiss exchange is so high that Europe cannot afford its Swiss vacations and goes to Southern Germany, Austria, Czechoslovakia and Italy instead, if it can afford to go anywhere. The result is that this summer Swiss hotels did about one-third their normal business, many innkeepers were ruined, and to save the situation the government declared a moratorium on hotel obligations.

The watch industry was largely dependent upon the rest of Europe as its best customer. Europe is too poor to buy watches, and to make matters worse, in the cheaper lines the competition of Austria and Germany is beginning to threaten serious results. The embroidery industry cannot compete with Belgium and France, nor its silk industry with Italy and France. Europe, its best customer in these lines, can no longer buy. Germany and Czechoslovakia are looming up as competitors in machinery, and in this field, too, Europe is too poor to buy. Swiss chocolates are likewise luxuries too expensive for her former best customers, who either make their own or go without. The price Switzerland is paying for membership in the aristocratic circle of high-exchange nations is industrial depression and commercial disaster.

Of course, the analogy between Switzerland and the United States is not at all complete. We are economically self-sustaining. We have a surplus of foodstuffs and raw materials which the rest of the world needs for its existence, and

a variety of manufactures, some of which part of the world will always need. But in so far as we manufacture goods in which labor costs are a material factor, and offer these goods for sale in world markets, the example of Switzerland is at least instructive and furnishes food for thought.

By way of summary, these, then, are the fundamental factors in the European situation which we must have clearly in mind in planning our industrial and economic future: Political instability, national and racial jealousies and hatreds largely due to an unworkable peace treaty; a dearth of working capital and a loss of purchasing power; enormous debts; budgetary deficits; wasteful and extravagantly costly governmental administration; depreciation in the actual value of currencies due to enormous inflation; a great need of foodstuffs and raw materials for years to come, and for the moment a diminishing market for manufactured products; low wages made relatively lower by exchange conditions and a huge surplus of labor which must find work, migrate or starve; inability to pay present debts, and little likelihood of paying future debts for some time to come in either gold or commodities which we can afford to accept. On the other hand, slow but sure progress, industrially and socially; a great improvement in the spirit and willingness to work, an understanding and appreciation of the problems ahead, and a gradual getting into working shape of Europe's industrial machine; an improving exchange condition probable in the majority of countries which will make long-term and permanent capital investments very attractive to American investors.

With these factors before us we may perhaps be able to draw some conclusions as to needed policies and action. It seems clear that: (1) Amendment of our immigration laws is immediately needed to guard against the influx of millions of aliens, many of whom are undesirables. Failure to pass restrictive legislation would be criminally unfair to American labor. (2) Tariff legislation may be necessary to protect not only the manufacturer, but the laborer. When we realize that Europe's one method of present payment is by goods, the seriousness of the problem is seen. No arbitrary and inflexible tariff law should be passed. It may be necessary that the key industries of this country be protected in so far as their pros-

perity may be found after investigation to be endangered. The quantity of goods available for our market should be sufficient seriously to affect our prices before the bars should be put up.

(3) Our tariff should be adjustable to meet conditions; in other words, a bargaining tariff under a broad law which should permit an able and skilled commission with executive approval to change tariff rates with different countries after due notice, hearing and investigation, where such changes will benefit American trade.

To enable Europe to pay for our foodstuffs and raw materials which she needs in her work of rehabilitation, we must furnish credits, not alone commercial, but capital credits. To develop new markets in other parts of the world we must make capital investments. Purchasing power of new markets is built up by the development of resources through capital. Money invested in building railroads in China means orders for railway materials, investments in loans to countries and states mean orders for construction materials. We have talked much about foreign investments, but our income-tax laws keep the rich man from investing and the savings of the humble are attracted elsewhere. Our income-tax laws as now drawn penalize saving and encourage extravagance. It is suggested that the new revenue act be so drawn as to put a premium on saving and investment.

Various European countries have made it advantageous for capital to invest in their securities. Why should not we do so? Why not amend our income-tax laws to permit the exemption from the normal tax of one-half of any amount of the year's income saved and invested in certain securities in which should be included government bonds and securities issued in the furtherance of our foreign trade and investment in foreign securities of certain kinds. To these might be added railroad and public-utility securities and bonds, the proceeds of which were used to build houses. We need to encourage investments along these lines, and the broader the market, the greater the benefits to be derived. All such securities should be held for at least five years under penalty of the payment of the tax for the year for which exemption was claimed. Such securities should be registered and provisions made for reinvestment. Normal tax exemption is urged because the habit of thrift,

saving and sound investment is so badly needed among the masses.

The government would lose little in taxes, and this would be made up in a short period of years by the growth in wealth and income due to sound investment. Except for the fact that the larger part of the revenue comes from surtaxes and the government needs the money so badly, a graduated scale might be worked out applying to the surtaxes. It would be difficult to exaggerate the good that would come from educating a nation of investors large and small. While there may be possibilities of fraud in connection with such a law, still it is possible to safeguard it sufficiently to make it entirely workable and to make it serve its great purpose as an incentive to save and invest in channels which will be of the greatest benefit to the nation.

A new administration takes office in March. It has serious work ahead. Of greatest importance is sound and constructive legislation along lines that will protect our domestic industrial situation, aid in the upbuilding and development of new foreign markets, and provide sound and practical assistance in the extension of needed credits to Europe. America is the richest and most fortunate of nations; its greatest opportunity is just before it; its future industrial and commercial prosperity are assured, provided that at this critical moment it be blessed with able and broad-visioned leadership.

## A TARIFF POLICY FOR A CREDITOR NATION CONSIDERED FROM A PROTECTIVE TARIFF POINT OF VIEW

EDWARD N. DINGLEY

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**A**T the outset let me say that a tariff policy cannot be determined by the phrase "creditor nation" or "debtor nation", for the reason that those phrases are not positive and definite. A nation cannot be a "creditor nation" or a "debtor nation" wholly for the same reason that an individual cannot be a creditor or debtor wholly. These terms are relative. A nation may be a creditor to one nation and a debtor to another, precisely as an individual is a creditor to one person and a debtor to another. Therefore no tariff policy can be affirmed on any such hypothesis. If an adequate protective tariff is sound in principle, it must apply to all industrial nations, no matter what their balance sheets may show. If a free trade or low tariff policy is sound, it must be beneficial to all nations, no matter what the temporary showing of their books may be.

The "creditor nation" theory is invented by those who fundamentally are opposed to a protective tariff of any sort. It is a variation of the ancient and (long-exploded theory) that trade between nations is nothing but barter, and that a nation must receive pay for its exports by receiving an equal amount of imports—the one approximately balancing the other. Free trade theorists repeat the old argument that a nation must buy merchandise if it expects to sell merchandise, that a large balance of trade in favor of a nation is a bad thing, to be corrected by larger importations.

On September 23, 1916, the *New York Evening Post* published an article by a Belgian free trader who reiterated the old free trade assumptions that "economic cooperation of peoples



is the fundamental principle of international morality"; that "economic morality is the positive and essential morality indispensable to harmony in international intercourse"; that "the first and fundamental manifestation of justice and morality in human relationship is freedom to exchange things necessary to physiological needs"; that the "establishment of artificial economic frontiers is an attack on international law and order"; that "the spirit of conquest is with protection, and the spirit of cooperation is with free trade"; and finally that "if aggressive protection continues to develop among the nations, there is no end of wars in sight". Prof. F. W. Taussig, the eminent free trader and former member of the United States Tariff Commission, once said: "The doctrine of free trade, however widely rejected in the world of politics, holds its own in the sphere of intellect." Such familiar free trade theories, assumptions and dogmas, uttered with a tone of finality and a spirit of intolerance, will not stand the test of experience. No classroom formula, no textbook theory, can take the place of what practical business men learn and know by experience. They are thoroughly familiar with the workshop, the payroll and bank credit.

One free trade theorist writes that "commerce or trade [meaning foreign trade], the real test of prosperity, is but a form of barter". This is not true. Commerce and trade is not mere barter. That it is not, accounts for its tremendous growth. Modern methods of business make international as well as domestic trade transfers of credits, representing the transfers of merchandise. Bills of credit, drafts, cable transfers and finally the shipment of gold to stabilize these credits, constitute the foundations of international commerce. They operate under inflexible laws, regardless of tariffs. Human wants and necessities control the currents of international trade. Nor is the progress and prosperity of a nation measured by what it sells abroad, but rather by what it consumes at home. This truth is exemplified and proved by the mere statement that during the many years of unparalleled prosperity in the United States since the Civil War, eighty per cent of our domestic merchandise produced and manufactured, was consumed

right here at home—in our own country. If this country cannot prosper now, as free traders claim, without a larger percentage of increase in exports, how is the prosperity of the United States during the last six decades (with a few notable exceptions) accounted for? If imports must be consumed in larger quantities in order to secure national prosperity, how is the prosperity of the past under protection, explained? If free trade or a low tariff, which is the same thing, is the only policy that will stimulate exports, how does it happen that our exports increased from \$1,050 millions in 1897 to \$2,204 millions in 1912—all under the policy of protection? During the fiscal year 1920 exports reached the enormous sum of \$8,100,000,000 (stimulated largely by the war). Our free-trade friends argue that excess of exports must be paid for by larger imports—presumably the larger the exports the larger must be the imports. It is not difficult to see what the end of such a programme will be—so far as the United States is concerned.

I make these preliminary observations to meet the familiar free-trade arguments relative to the policy of protection, in its relation to foreign trade and commerce, and likewise to get a true vision of international trade from the point of view of the protectionist. The free trader places foreign markets first; the protectionist places domestic markets first. The free trader seeks first the markets of the world; the protectionist seeks first the home market.

The war and the tremendous increase in foreign trade, has not altered fundamental principles or changed human nature, as many free traders assume. No matter whether the United States is a "creditor" or a "debtor" nation, the principle of protection or the policy of free trade must rise or fall in the scales of human experience, not in the dictum of theory.

First, I wish to examine more carefully this phrase "a creditor nation". In justification of a low tariff or free trade, it is argued that since the war in Europe, the United States is a great creditor nation, and that other countries cannot pay their debts owing us, unless we continue a low tariff or make it still lower, and permit foreign countries to sell us more goods, regardless of whether they are competitive or non-competitive.

A distinguished New York economist has figured it out that the world's debt to the United States is about twelve billion dollars. Necessarily many of his figures are largely estimates. I have attempted to procure from official sources in the Treasury Department some information along these lines, but the officials say they have none. However, I ascertained from the president of a well-known American railroad whose office is in New York City, that on January 31, 1915, there were \$2,704,402,000 in American railroad securities held abroad. Between that date and January 31, 1917, \$1,518,590,000, or 56 per cent, were returned to the American markets. Of course these are only railroad securities; but if the 56 per cent return rule holds good in other securities (and it is a fairly accurate assumption), of the estimated \$5,000,000,000 we owed abroad in 1913, about \$2,800,000,000 has been returned and sold, the balance, about \$2,200,000,000, still remaining drawing interest or dividends.

Between July 1, 1914 and July 1, 1920, six fiscal years, the United States exported merchandise to the value of \$34,400,000,000, and imported merchandise to the value of \$17,100,000,000; exported gold to the value of \$1,500,000,000 and imported gold to the value of \$1,900,000,000; exported silver to the value of \$740,000,000 and imported silver to the value of \$360,000,000. It is estimated that during this period American citizens made private loans or investments abroad amounting to \$2,000,000,000.

The debit items during this period are estimated: Alien hoards in this country \$4,000,000,000 (on the authority of the Director of the Department of Labor in July, 1919); gold deposits of foreign countries \$740,000,000; other bank credits \$310,000,000; interest and dividends \$200,000,000 annually or \$1,200,000,000 for the six years; tourist expenses \$1,000,000,000; ocean freights \$1,200,000,000; insurance, premiums and commissions \$500,000,000.

Total credits . . . \$41,440,000,000

Total debits . . . 33,310,000,000

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Credit balance . . . \$8,130,000,000—not \$12,000,000,000 as claimed.

PERIOD 1914 TO 1920  
(In millions)

	Cr.	Dr.
Merchandise . . . . .	\$34,400	\$17,100
Gold . . . . .	1,500	1,900
Silver . . . . .	740	360
Foreign investments. . . . .	2,800	5,000
Private loans. . . . .	2,000	
Alien hoards . . . . .		4,000
Foreign gold . . . . .		740
Bank credits . . . . .		310
Interest and dividends. . . . .		1,200
Tourist expenses . . . . .		1,000
Ocean freights . . . . .		1,200
Insurance, premiums and commissions. . . . .		500
	\$41,440	\$33,310

I have not taken into consideration at all the nearly \$10,000,000,000 credits advanced to foreign countries during the war, of which Great Britain received about \$4,277,000,000, for the reason that they are of doubtful value, first because not even the interest has been paid, and second because Great Britain declines to pay back her part until the other countries to which she loaned, pay up. Furthermore, there are many indeterminate credits which European countries claim as offsets. For the present, these vast credits cannot be taken into serious consideration. There is a strong probability that the great bulk of them will be written off as "war losses" which the people of the United States will have to bear. As the figures now stand, the financial transactions of the United States between July 1, 1914 and July 1, 1920, so far as foreign countries are concerned, show that the United States is a creditor nation to the extent of \$8,130,000,000—nominally.

But creditor to whom? A creditor to the rest of the world. Yet the United States is not a creditor to all countries with which it trades. During the six years (1914 to 1920), the United States was a creditor nation to Europe and North America, but a debtor nation to South America, Asia-Oceania and Africa. Therefore, as I stated at the outset, it is inaccu-

rate to say that the United States in its foreign trade and foreign financial relations, is a creditor nation wholly. Here are the figures:

PERIOD 1914 TO 1920  
(In millions)

	Imports.	Exports.
Europe. . . . .	\$3,582	\$20,004 plus.
North America . . . . .	4,610	5,844 plus.
South America . . . . .	2,873	1,509 minus.
Asia-Oceanica. . . . .	4,385	2,932 minus.
Africa . . . . .	384	328 minus.

The United States has been a "creditor nation", if by that is meant excess of exports over imports, every year from 1874 to 1920, with the exception of three years—1875, 1888 and 1889. Nevertheless it was a creditor nation to some nations and a debtor nation to others.

Everybody knows that the tremendous excess of exports over imports of merchandise during the last six years, was due to the European war. Our export trade began to assume large proportions in 1915. Imports of gold did not square accounts, yet there was no uneasiness since it was known that Europe was, at least temporarily, fortified by the large amounts of credits and American securities sent abroad for many years, to pay for interest dues, alien hoards, tourist expenses and freights. In 1913, it was estimated that these debts sent abroad amounted to \$1,400,000,000 a year. Lloyd George boasted that England would finance the war out of her foreign investments. Little or no American cash went into foreign loans in 1917 or after. They were credits offset largely by European investments in the United States, technically called "the invisible balance". English bankers were making private loans in the United States, it is authoritatively stated, when the United States Government was making loans to the Allies. Canadian and English bankers were placing large credits in New York, and money rates were lower in London than in New York. It is not reasonable to suppose that, after financing our own



war, we had a surplus of nearly \$10,000,000,000 to invest in foreign loans.

The war cost the United States \$32,000,000,000 including the credits to foreign countries, or \$22,600,000,000 net. Charging off the credits to foreign countries as "war losses", what do the figures show?

Ordinary receipts July 1, 1917 to July 1, 1919 . . .	\$5,200,000,000
Receipts from bonds and notes etc. . . . .	19,400,000,000
Total . . . . .	\$24,600,000,000
Cost of war est. . . . .	22,600,000,000
Balance . . . . .	\$2,000,000,000

The net balance during these two years was reduced materially by ordinary expenses, cost of collection, advertising and many other items. The balance between the net receipts for the two war years and the cost of the war was not more than \$2,000,000,000, under the most liberal estimates. Where did the United States get the ten billion credits claimed to have been advanced to foreign countries? The surplus was not large enough by at least seven billion dollars. This demonstrates that the United States is not the "creditor nation" to the extent claimed.

The fact that no interest has been paid, and no great effort is being made to collect, is an indication that these large credits were offsets—not cash advances, except in some instances. There were some credits for food supplies to countries having no credits in this country, but not many. Therefore the nearly \$10,000,000,000 advanced is not a very good credit. It does not make the United States a creditor nation to that extent.

If the foreign trade of the United States during the six years—1914 to 1920—was normal and healthy, why did not gold come into the country sufficient to balance? On the contrary in 1919, there were large exports of gold, resulting in a money panic in November of that year. Call money went up to 20 per cent. The *New York Evening Post* said: "The country has for a year past been exporting more gold than it has imported, and it has been increasingly difficult to maintain the

Federal Bank reserves." The Federal Reserve Board had the power to check the export of gold, but it did not exercise it, for the reason that little gold belonged to the bank or the government. The Federal Reserve Bank faced an export of gold and a panic the first seven months of 1914, and, but for the war and a gold pool, there would have been serious trouble. In 1919, when our exports to Europe were the highest, gold exports increased rapidly. Where did they go? To pay for imports from the Orient and South America, where we were a "debtor nation". In the fiscal year ending June 30, 1920, we exported \$460,000,000 in gold. The great bulk went to Argentina, Japan, Hongkong and China. Of the \$150,000,000 in gold imported, most of it came from England, Canada and Hongkong. Practically all of our stock of gold belonged to foreigners or was exported to the Orient or South America.

If we are a "creditor nation" to such an extent as to compel us to invest in foreign securities to balance accounts and to enable foreign countries to sell us still larger amounts of merchandise, why did we export nearly \$300,000,000 in gold in the calendar year 1919, when the trade balance in our favor was \$4,467,000,000? Trade balances may be in our favor, but balances of payments may not be. According to the *New York Evening Post*, the money situation in New York during February, 1920, was the worst in many years, "due to exports of gold"; yet the balance of trade was largely in our favor. Trade balances were settled with those "invisible credits" which cut such a large figure. Balances of trade do not necessarily measure our credits. They form no measure of our ability to invest in foreign securities. They are no indication that imports must be stimulated to reach a safe balance.

Thus it is reasonably certain that even the apparent credit of \$8,130,000,000 at the close of the six years' transactions on July 1, 1920, is too large an estimate.<sup>1</sup> The foreign debt due the United States is not so great as to cause undue anxiety. If the United States Treasury is not worried, free-traders need

<sup>1</sup> The Secretary of the Treasury estimates this credit balance was between 3 and 3½ billion dollars in September, 1920. See 1920 *Report*, p. 77.

not urge the necessity of larger imports of merchandise to balance the debt.

In the face of these conditions it is said by the free traders that our imports must increase to save the nation and permit foreign countries to pay their debts. By foreign countries they mean Great Britain, France, Italy, Belgium, Czechoslovakia, Greece, Rumania and Serbia. To all other foreign countries we have been a debtor nation.

Of the eight countries mentioned, only four may be considered seriously—perhaps only three—Great Britain, France and Belgium—unless Germany may be rehabilitated industrially more rapidly than is anticipated.

For the nine months of 1919 and 1920, imports of merchandise from these countries were:

	1919	1920 (In millions)
Great Britain . . . . .	177.7	434.0
France . . . . .	73.2	130.0
Belgium . . . . .	2.9	35.8
Germany . . . . .	2.7	67.7

The increase in imports has been from 200 per cent to 1,200 per cent. However, the largest imports (with the exception of Great Britain) were from the Orient: China, 105.8 and 169.9 millions, and Japan, 272.3 and 366.1 millions in 1919 and 1920 respectively. Are not these increases in imports sufficient to cause anxiety on the part of protectionists, as well as other Americans?

Is our balance of trade with Europe, in our favor, too large? If so, should exports be reduced or imports increased? The low rate of exchange in Europe discourages exports to, and encourages exports from, Europe. The English pound is worth today, in American money, about \$3.45; the French franc about \$.06; the German mark about \$.015. English, French or German merchandise can be purchased with depreciated money of those countries, sent to the United States, the duty paid, and the proceeds in American money turned back into foreign depreciated money, yielding a handsome profit to the foreigner or importer. Hon. Leslie M. Shaw offers this illustration: "Before the enactment of the present tariff law,

the German merchant (or his importing agent in this country) who brought to America merchandise worth in the German market the equivalent of \$100 in our money, paid an average duty of nearly 23 per cent into the Treasury of the United States, and was able to return to Germany with a little over 300 marks, minus freight and commissions. Under present conditions, he can bring to America German goods worth in his market the same equivalent, pay his tariff duty of  $6\frac{1}{2}$  per cent, sell in our market, exchange it for marks, and return with nearly or quite 3,000 marks. Had it not been for the German embargo on foodstuffs, the importers of German wheat into the United States could have made a handsome profit." Free traders and internationalists figure that this low rate of exchange will bring large quantities of foreign merchandise to our shores, thus enabling Europe to buy of us what she must have. They fail to see that if America imports from Europe a year's supply of merchandise, American labor will be thrown out of employment. This is what is taking place now. A protective tariff is needed to save the United States from industrial stagnation.

Illustrating the present tendency toward free trade and internationalism, and the utter failure on the part of some high government official to approach the vital problems along American lines, let me quote from a statement issued by the Federal Reserve Board only five days ago, touching what it characterizes as "a return to the normal economic basis of international and industrial life". The Board says in substance:

The slowing down of the export trade of the United States during the year is attributed in some measure to the exchange situation, which has steadily deteriorated. American exports seem to be closely conditioned upon the volume of imports, and warrant the inference that there should be a larger movement of goods into the United States as a result of the extensive credits granted foreign countries.

In other words it is urged that American industries should be crippled still further by larger imports, whereas imports this year will reach nearly \$6,000,000,000, and unemployment is on the increase! The actual net credits granted foreign countries are not sufficiently large to warrant an increase of imports

beyond the already stupendous figure of six billion dollars! The total domestic exports of raw materials, foodstuffs and food animals for the ten months ending October 30, 1920, were \$1,600,000,000. The export of domestic manufactured goods for the same period were \$2,600,000,000—nearly \$500,000,000 more than a year ago. Imports of raw materials and food products during the same period were valued at \$1,500,000,000 and imports of manufactured goods were valued at \$757,000,000. Certainly the problem of national prosperity and safety is not solved by such enormous exports and correspondingly large imports.

Free traders contend that if exports increase, imports must increase in the same proportion. Yet the exports for the ten months of 1920 exceeded the exports for the ten months of 1919 by \$700,000,000, while the imports for the ten months of 1920 exceeded the imports of 1919 by only \$330,000,000. But imports must increase proportionately with the exports, to harmonize with the free trade theory.

It is certain that the enormous increase in exports to Europe must decline soon. Artificial stimulation of exports may prove a peril. If exports are forced to the point of non-absorption or non-payment, simply for the sake of finding foreign markets for American merchandise, there is a day of reckoning ahead that bodes no good. Somebody must pay for this merchandise—either the European consumer or the American investor in these foreign securities. But will not these American investors meet their own credits coming back in the shape of European merchandise in competition with similar American merchandise? If such importations of European merchandise interfere with or check American production, every American citizen investing in European credits will feel the blight. Extension of credits to foreign countries through the so-called Edge bill will do more harm than good if not accompanied by a restoration of protection.

It is argued by the free trader and the man who seeks first the "markets of the world", that this country has been and is producing a large surplus which it must sell abroad. How can there be any such thing as a surplus when in the ten months of

this calendar year, we imported foreign merchandise to the value of \$4,692,000,000? Our imports of foreign merchandise will exceed \$6,000,000,000 this year. What are some of the principal imports? Animals, breadstuffs, raw cotton, manufactures of cotton, fish, glass and glassware, machinery, iron and steel, leather and manufactures of leather, dairy products, meats, vegetable oils, manufactures of silk, sugar, toys, wheat, manufactures of wood, wool and manufactures of wool. Nearly all of this merchandise is in competition with similar American merchandise.

### *Protection Must be Restored*

There are two fundamental reasons why an adequate protective tariff should be restored by Congress. One is that the balance of trade in our favor is sure to turn against us, if the present rate of increase in importations is maintained. When that time comes there should be ready at hand and prepared a highly developed home market. One thing contributing to the great volume of exports is the under-consuming power of the American people due to a let-down after the fever of the war, unemployment, and the steady decline in prices as well as wages. Many American mills and factories are running on short time or are shut down, because of lack of orders. This means unemployment. To add to the calamity, foreign merchandise is flooding the American markets and supplanting American goods. The wool and woollen industry is flat. The cotton and cotton manufacturing trade is hard hit. The free trader says: Cultivate foreign markets; build ships and send American merchandise to every country on the globe. The protectionist says: Check the importation of foreign competitive merchandise, keep our own mills and factories running and employ American labor. When the purchasing power of the American wage-earner is restored and unemployment checked, there will be less surplus to send abroad. Take care of the home markets first. It is well to observe that free traders or internationalists fear that a continuance of Europe's adverse balance of trade with the United States may bring about disastrous results. The situation in Europe is very similar to the



situation in the United States during and after the Civil War. From 1860 to 1876 with one exception (1875) the balance of trade was against the United States, and gold was exported in large quantities. Steady production, the policy of protection and the resumption of specie payments, turned the tide, and from 1876 the balance of trade was in favor of the United States. Now that Great Britain has turned toward the policy of protection, it may be that the balance will be more favorable to her.

Free traders well might take a leaf from British history. Soon after the Napoleonic wars, Great Britain started out to capture the markets of the world. She succeeded, but also she succeeded in wrecking the industrial stamina and morale of England. Under free trade Great Britain sacrificed her industrial population, and sapped the life-blood out of her wage-earners, until the whole industrial part of the country was anemic. Wages were low. Poverty was wide-spread. Her agriculture was neglected for the markets of the world. England apparently prospered until 1914, when she found herself face to face with war. On the one hand was an impoverished industrial population, on the other a powerful enemy. England was forced to promise her wage-earners emancipation from starvation wages or they would not fight for the realm. Lloyd George capitulated. In 1917 free trade England stood, as General Haig expressed it, with her back against the wall. Then powerful, protection America came to her rescue, saved England, Europe and Anglo-Saxon civilization. The industrial and economic strength of the United States under a policy of protection, won the war. Is the United States prepared to repeat the mistake of free trade England, and sacrifice her home markets, her domestic wage-earners, on the altar of "the markets of the world"? It is as certain as that the sun will rise tomorrow, that if the United States permanently abandons the policy of protection and launches upon an international policy of "world markets" above all else, in less than a decade there will be no such thing as an American standard of wages or an American standard of living. But, says the free trader or low-tariff advocate, since the war, wages in Europe, especially Eng-

land, have advanced to the American standard. Have they? Then the official reports of the United States Bureau of Labor are false. I have made a study of these reports for the past eight months, and find that European wages are still about one-half or two-thirds of American wages, while wages in Japan are about one-tenth the wages in the United States.

If American manufacturers and producers are to go out into the markets of the world, they must meet the cost of production in the lowest industrial country so far as competitive merchandise is concerned. It is perfectly obvious what that means—to American labor. The free trader or low-tariff man, argues that the policy of protection is sectional—it benefits the industrial east alone. Nothing of the sort. It benefits the great middle west teeming with industrial cities. It benefits the south with its growing factories. It benefits the farmer, for it gives him the best market in the world—the home market. Farmers should bear in mind that under the policy of protection from 80 to 90 per cent of our domestic wheat is consumed at home, and from 90 to 95 per cent of our domestic corn. This is in normal times. The farmers of the country, and representatives of farm organizations, growers of wool and cotton, are besieging Congress and asking for relief from low prices and stagnant markets or no markets at all. They want the War Finance Corporation to be put in operation to help keep up prices and aid the farmers in their dilemma. It is an unfortunate situation, but a revival of the War Finance Corporation will bring only temporary relief, if any. This corporation will be compelled to borrow money of the United States government or treasury, and lend it to the banks and exporters of farm products.

Since the war the government has retired from the banking business (except in so far as the Federal Reserve System is a government agency) and should remain retired. Is it good business for the United States government, already burdened with a tremendous debt and facing a large deficit, to add to that debt and increase the burdens of the whole people? Of course farm products are declining in price just as everything else is declining, or will decline soon. It is the national re-

cuperation after the war fever. Declining prices is only another way of stating that the purchasing power of the American dollar is being restored slowly. The rise in prices during the last six years demonstrates clearly that protection does not increase prices and that the tariff is not a tax on the consumer. We have had a low tariff since 1913, yet prices have advanced to an unparalleled degree, and the cost of living has soared to the highest point ever reached. Supply and demand operates always; and in the case of farm products, the supply in the United States has increased while the purchasing power of the people has declined. Large imports of wool, cotton, wheat and all sorts of foreign farm products, have met the American products in a weak or declining domestic market. What is the remedy? A reduction in the supply by checking imports of competing foreign products.

America is attempting to build up a merchant marine. The government has spent more than three billion dollars in this venture, and the problem is not yet solved. Why? Because thus far the policy of the government has been that of free trade in the ocean-carrying business. With its large investment and its many ships, both leased and operated by the United States Shipping Board, the government is losing money, because it is in competition with the ships of the world. The policy of protection by discriminating duties and tonnage dues, is the only policy that will permanently restore our merchant marine on the high seas, and make voyages profitable. The policy of protection on land will give outward cargoes to our own ships; discriminating dues and import duties will assure them return cargoes. America's coastwise trade is prosperous because it is protected from foreign competition.

"Adequate protection" not "a high tariff" is the correct phrase to use. The amount of the import duty must be determined by costs of production at home and abroad. Since 80 per cent of the cost of production usually is labor, the protective tariff becomes a matter of wages; for despite all claims to the contrary, wage-earners are the greatest beneficiaries of that policy. Whether the United States is temporarily a creditor nation to England and to France, or a debtor nation to

Argentina and Japan, makes no difference; neither condition has anything to do with the fundamental principle of protection.

The only new and serious factor entering the problem of tariff-making arising out of the war, is the low rate of exchange which makes the cost of production in foreign competitive countries so low, when measured in gold, as to practically nullify a protective tariff. Some plan should be devised to overcome this.

Protection as a principle does not interfere with profitable foreign trade. It takes no accounts of credits or debits with the several nations of the world. It does not seek to check imports unless such imports supplant similar domestic merchandise and rob the domestic wage-earners of an opportunity to produce the same merchandise, thereby earning a livelihood. Protection seeks to promote exports, for it pays back to the importer, all but one per cent of the duty he has paid on foreign merchandise re-exported.

Protection is a source of revenue, notwithstanding the nation now talks only in billions. Revenue from customs has been averaging about \$250,000,000 annually. There is no reason why customs receipts should not be doubled—perhaps more—with little or no diminution in the volume of competitive imports. If \$500,000,000 or \$600,000,000 is raised from customs, that amount in direct taxation can be eliminated.

Let me recapitulate my argument:

1—A favorable balance of trade does not necessarily mean a corresponding favorable credit.

2—Abnormal exports induce abnormal imports, under a low tariff.

3—The prosperity of a nation is measured, not by what it sells abroad, but by what it produces and consumes at home.

4—Under-consuming power of our people, and abnormal imports, are the economic evils today.

5—The remedy is a checking of competitive imports by adequate protection.

6—Then will follow a restoration of employment, larger consuming power among our people, and a home market better than any foreign market.

7—Such a programme will not interfere with normal exports, nor check profitable imports. It will bring normal and permanent prosperity at home—the spot in which we should be interested the most.

The policy of protection appeals to the sentiment of patriots, the logic of human events and the necessities of life. It is a broad and national application of a great principle laid down in the Mayflower Compact, the Declaration of Independence, the Federal Constitution and the Monroe Doctrine. It has stood the test of time and experience.

The tariff policy of the United States should be such as to give our domestic manufacturers, producers and wage-earners, the benefit which comes from home industries and home markets. Such a policy is not one of "splendid isolation". The United States commercially, never has been and never can be, in a position of "splendid isolation". Foreign trade has progressed under protection as well as free trade, under debit as well as credit conditions. Such a policy is not a burden on the consumer, since all are producers or consumers, unless prisoners or drones. Every country, in the long run, must produce more than it consumes or travel straight toward bankruptcy. Protection encourages production; free trade encourages consumption.

Often it is said that nationalism is the cause of wars, the false note in human brotherhood and a synonym for selfishness. On the contrary it is true Americanism. When the spirit of nationalism disappears, the world is on a decline. When nationalism falls, the nation falls. Let me quote from an excellent article on "The Significance of Nationalism", by a distinguished educator and real American. He says: "Nationalism has its faults, yet it has been the greatest inspiring, transforming force in history. It promulgates religions, transforms national habits into great ethical systems; it immortalizes language, gives sacredness to literature, inspires poetry, sets throbbing the harp-strings of a people's melodies."

The policy of adequate protection is nationalism translated into terms of economic science.

## A TARIFF POLICY FOR A CREDITOR NATION FROM A LOW TARIFF POINT OF VIEW

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THE tariff has always been greatly exaggerated, both by its defenders and by its opponents. The burden of a tariff is no heavier, if as heavy, on a prosperous nation than the enormous wastes in production, distribution and consumption which we tolerate constantly in our economic processes.

A tariff undoubtedly influences the general economic development of a country. It may reinforce or deflect the general movement of existing economic tendencies. I think the observers of our economic history are willing to admit that the protective tariff system has certainly, notably in individual industries, assisted in developing a considerable degree of industrial diversification in the United States. Students of the economic history of England point out that its free-trade policy has undoubtedly caused a serious deflection, so to speak, of its economic life, in the direction of a shipping policy and a large coal-export policy.

The tariff has such an influence, but it is not so important in the general organization and development of an industrial society as certain other more fundamental economic factors, such as the character of natural resources, enterprise, invention and organizing capacity. One chief reason why the tariff has always played such an exaggerated part in the national thought has been the fact that it is always in the center of political controversy. As a matter of fact, any protective tariff system—I may say even, any free-trade system—cannot be taken out of politics. There is no such thing as a scientific tariff.

A tariff has too much to do with the vital interests of classes, of great sections of a community; it is bound up in the economic and social life of a country in such a fashion that it cannot be taken out of politics. The tariff policy of a country always reflects the balance of its economic and social forces,



agricultural or industrial interests, or the balance as between one type and group of industries and another.

A tariff policy once established may have its details worked out in a much more scientific fashion than we as a nation have been accustomed to work them out. Such may be among the functions of a tariff board or commission, but neither in the past nor the future can a tariff board or commission lay down the basic tariff policy for a country. That is a political matter and will be left to the politicians to settle, as representing the conflict of interests in the country. It follows from this that the situation in this country today cannot be handled from the standpoint of pure theory; it must be treated as an economic-political problem.

The political controversy which has raged on the tariff has helped to obscure certain simple facts in the situation. Ever since economics passed out of the stage of crude mercantilism at the close of the eighteenth century; in other words, as soon as men commenced to reflect upon the facts of economic life and pierced somewhat below the surface to more underlying things, most economists, with differences in minor points, have come to certain fundamental agreements in regard to the tariff problem.

It is fairly obvious, they tell us, that you cannot sell without buying. Goods and services must exchange for goods and services, both in domestic and foreign trade; you cannot export without importing. This reciprocity of trade is mutually advantageous. But the old mercantilist point of view was the narrower one: that what I gain, you lose. In the eighteenth century, some one had the happy idea that that was not so, that in any fair trade both sides were satisfied or they would not trade. It is claimed that this reciprocal satisfaction in trade stimulated an increasing degree of specialization. This is true both for individuals producing for exchange and for nations exchanging their products. Thus we come to what is known as the fundamental argument of the free trader—the advantages of geographic specialization.

The argument is that there is more real wealth resulting from each individual and each social group doing what it is or becomes best fitted to do by its resources, by its inheritance and by its training. There is more wealth for the world as a whole

obtained from that type of social cooperation. There is no doubt, for instance, in anybody's mind of the great advantage to the United States of a free and untrammelled exchange within its own regions, the largest free-trade area in the world, encircled by our tariff ring.

Furthermore, the economists are agreed in the main that protection is an admission of inferiority and weakness in the industry or the group of industries demanding it. Such production is necessarily at a disadvantage. If it were not producing at a higher cost there would be no need for protection, since there would be no importation of the foreign commodity. The nation taxes itself by a scale of higher prices in order to give the particular protected interest or group of interests an equality with the foreign producer. To the geographical specialization argument for free trade, there is added the admission of a definite burden or economic loss, to be carried by the country taxing itself to maintain a protective system.

But on the other hand, from Adam Smith down, certain important admissions are made by the defenders of free trade in regard to the protective tariff system. Quite apart from so obvious a case as a countervailing tariff on imports of those commodities which suffer from a domestic excise tax, certain other exceptions to the rule are often allowed.

It is admitted that this national cost may be worth paying, first, for certain industrial products and industries necessary for the national defence. The demand for protection to the chemical industries today is an example which has been borne in upon us by the lessons of the recent war.

In the second place, the cost may be worth paying, within reasonable limits, for the encouragement of infant industries and for the diversification of national enterprise, since geographical specialization is not a static but a dynamic condition. These limits should include, for the United States particularly, the adaptability of the protected industry to our large-scale machine methods, such, for instance, as the silk industry showed itself to be capable of. Furthermore, there are limitations of time, since necessarily an infant must some day become adolescent and adult.

It is also admitted generally that any change in the existing system should not be made abruptly, but with great circumspection.

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It is clear that the present trade situation is abnormal, that it is beyond any sure guidance of precedent. We have seen an enormous development of exports, running up to unheard-of figures, owing to the war and to the inevitable consequences of the war. We had in 1919 a so-called favorable trade balance, unfortunately so-called, of exports over imports which is almost ten times as large as the trade balance which was customary for the 15 or 20 years before the war—over \$4,000,000,000 in 1919.

This trade balance has been made possible by great loans to our allies in Europe, enabling them to buy the necessary food and supplies for the carrying on of the war. This situation was a part of our necessary contribution to the winning of the war. It has resulted in an abrupt change of this country from the position of a debtor nation to that of a creditor nation. Before the war, it was estimated that we owed approximately somewhere between \$4,000,000,000 and \$5,000,000,000. Our former debt balance to Europe of interest and payment for services rendered was settled by the export of goods. The so-called favorable balance was simply the recognition of a debtor position on the part of this country.

Similarly, our credit balance, which now exists in the form of certificates of indebtedness, must ultimately be settled by importation of goods and services. There is no avoiding that conclusion. This payment, however, resulting naturally in an excess balance of imports over exports is not immediately in prospect. There are a number of retarding factors to be considered and here we enter into that realm of guesswork, of problematical situations, which Mr. Kies has so admirably pointed out in his paper.<sup>1</sup> There may be, and that will depend a good deal upon political as well as commercial factors—a continuing outflow of capital from this country abroad, an outflow not merely to Europe in distress, or an outflow necessary for the reestablishment of our debtors on a sound basis, but also an export of investment capital in connection with our commercial enterprise in other parts of the globe.

The item of tourist expenditure, which used to be estimated before the war at somewhere between \$150,000,000 and \$200,000,000 a year, is likely to increase, at least after the

<sup>1</sup> See *supra*, p. 145.

immediate effects of depression in this country are over. The remittances of immigrants which, until shortly before the war, never were estimated high enough but which we came to realize were running somewhere between \$100,000,000 and \$200,000,000 a year before the war and which the best investigations have put for 1919 at \$300,000,000 are likely to continue, even despite business depression, at a fairly high figure. The remittances of immigrants, however, on the debit side of the account, will be somewhat balanced by the expected inflow of immigration to this country, each immigrant bringing not only himself but a certain amount of money with him.

One item in the balance of trade which used to be a fairly considerable one is now I think, subject to grave doubt for the future. I refer to shipping freight charges for which we formerly paid the foreign carrier by the export of goods, and which many had hoped our new mercantile marine would transfer to the other side of the account. A very large tonnage of shipping is on our hands as the result of the war needs, built at the high cost of war prices, now probably in excess of what this country can permanently manage. There was a small group of men experienced in the shipping business and there was a period of high shipping rates bound to be only temporary in character. That situation demanded action which should have taken the form of prompt and drastic cancellation of orders which should have called for the sale abroad of a considerable portion of the smaller ships, and should have called also for the sale at low prices, within reach of the market, of ships which could have gone into the hands not merely of the older companies competent to handle them, but of the new men, the new capital, the new enterprise that must be called into existence if we are to have a large mercantile marine.

While England was disposing of her excess war tonnage at approximately \$100 a ton, our Shipping Board was offering it at \$225 a ton and practically failed to sell this tonnage at the time when it could have been sold, when new capital and new enterprise could have come in and gained experience of the business during a period of high shipping profits.

Now that combination of conditions is past. It looks as though we must count, looking this situation squarely in the face, on having to "scrap" a good many of our hopes in regard

to a mercantile marine. We certainly are not safe in counting profits for our services as carriers to any considerable amount in this balance.

Even if we attempt as some of our recent discussion indicates, to make ourselves a hermit nation, involving the further raising of the tariff barrier, already one of the highest in the world, the cutting off of immigration, the sale of our shipping, the cancellation of our debt—these are all involved in the notion of a hermit nation—we may postpone for a number of years, but we cannot possibly evade nor can we possibly refuse our position ultimately as a creditor nation. We have wiped off the debts which we formerly owed abroad, and we are bound from the expansive forces inherent in our situation to become ultimately a creditor nation.

The normal tendencies which existed before the war, after the worst of the present "abnormalcy" is over, will gradually reassert themselves. These normal tendencies which have been developing clearly over a period of a generation are, first, the decline in the export of foodstuffs; second, the growth in the exports of manufactures. There will emerge definitely the period when we shall cease to be on the balance a food-exporting nation. We shall be an industrialized country and no longer predominantly agricultural. We have already reached the stage when we are barely self-feeding.

This condition which was already visible before the war, coupled with tendencies which will undoubtedly come to the front and develop themselves as soon as the present quite abnormal situation has passed away, is fairly comparable to the English experience from the close of the eighteenth century to the middle of the nineteenth, when first England ceased to be a food-exporting country and became a food-importing country, with a rapidly growing export of manufactures and when ultimately the manufacturers themselves came to ask for the reduction of tariffs.

It is not necessary to argue for any sudden reversal of our tariff policy. In fact, for a few years it ought to be held rather stable and conditions at home and abroad watched with the greatest care, but it seems clear that it is not a sound national policy to move in the direction of raising our already high protective duties. The further exclusion of foreign goods ten-

dered to us in payment of our credit balance will result (a) in the inability of our European debtors to purchase from us, affecting both our agricultural as well as our industrial exports; (b) in increased and successful efforts on the part of our European debtors to develop markets in other regions—South America, Asia, Africa—to which our own manufacturers are looking hopefully for the sale of our swelling total of exports; (c) in the impossibility of establishing a merchant marine, except at prohibitive cost.

We are brought face to face in this country with our destiny as a predominantly industrial nation possessing an enormous domestic market, but with a steadily growing need for wider foreign markets. We cannot, however, much as we may struggle temporarily with our fate, remain permanently an isolated self-sufficient nation. Our imports must of necessity increase until they surpass our exports. From being a nation with a predominant export of raw materials which other nations were compelled to seek from us, we are inescapably on the way now to a position where, as normal trade relations are established, our manufacturers will be anxiously seeking an outlet in keenly competitive markets for export trade predominantly industrial in character. The manufacturers themselves will in no distant future be asking not for higher tariffs but for lower tariffs. They will find that we cannot sell without buying, and the development of geographical specialization will reach the point where our diversified industries, if adapted to low-cost machine production, must find outlets in foreign markets. The policy of this nation as it becomes effectively a creditor nation must be for a gradual, a well considered, but steady, reduction of our protective tariff.



## TARIFF PREFERENCES AND DISCRIMINATIONS IN TRADE

WILLIAM S. CULBERTSON

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THE existence and growth of import and export preferences throughout the world can not be matters of indifference to the American people. We are being driven steadily toward a larger and larger participation in foreign trade and finance. Our manufacturing industries have grown strong financially and technically. Although our country is rich in natural resources, we shall have to import increasingly greater quantities of important raw materials, some of which, as for example, jute, rubber and tin, can only be had from overseas. Exporting, once incidental, has become essential to the prosperity of many of our manufacturing concerns. The markets of tropical colonies, especially, offer large opportunities. These areas, many of them populous, develop manufactures slowly and look to the great industrial nations to supply their needs of finished articles. American shipping is also stimulating our interest in the commercial policies of nations. American ships, which before 1915 carried less than 10 per cent of our sea-borne imports and exports, carried in 1919 36.4 per cent. In addition, we have made enormous private and public loans abroad, our banking institutions are establishing foreign branches, and American capital is claiming its share in the development of the world's resources.

These conditions make discriminations in trade of more than academic interest to us. Our overseas possessions are limited in extent and our proclaimed policy is to diminish rather than increase them. Viewing the problem for the moment from the point of view of our selfish well-being alone, we have nothing to gain from an extension of the old policy of preference and exclusion in colonial possessions. Our interest, and I am convinced the long-run interest of all nations, is in the widest adoption of the principle of equality of treatment or, as it is

called, the "open door."<sup>1</sup> Unfortunately, however, this policy since the '80's of the last century has been losing ground. Nations have accepted it with growing reluctance and where they have acquiesced, it has at times been evaded. With the growth of colonial empires has gone the extension of discriminatory practices. The closing of the door by preferential duties has had both political and economic objects. Of the latter, two are of special interest: First, the desire to give national industries advantages in marketing their goods in colonies, and second, the desire to assure to consumers in the mother country a preference in obtaining, or a monopoly of, essential raw materials.

*Preferential Import Tariffs: France*

First, let me speak of preferential import tariffs. France as a colonial power is second only to Great Britain. The aim of French colonial tariff policy adopted in 1892 is assimilation, *i. e.*, to establish free trade between France and the colonies and to require foreign goods imported into the colonies to pay the rates of the French tariff. Naturally, in practice this policy has been modified by exceptions, but it has been applied in all its essentials to the important French possessions—Algeria, Indo-China, Tunis (in part), Madagascar, New Caledonia, French Guiana, Gaboon, Reunion, Martinique and Guadeloupe. A few of her colonies France has not assimilated but has simply introduced into their tariffs preferential rates in favor of French goods. In this class are French West Africa, French Oceania and St. Pierre and Miquelon. Moreover, France is a party to a number of "open-door" treaties, by which she has pledged herself to a policy of equal treatment in Morocco, Dahomey, and the Ivory Coast. In one or two of her colonies, as for example, in Somaliland, she maintains the "open door" as a matter of policy. In general, however, it

<sup>1</sup> It would seem unnecessary to point out that the phrase "open door" does not refer to the highness or lowness of tariffs and is never to be translated "free trade". Nevertheless, when this address was delivered, certain newspapers fell into this error. The phrase "open door" simply means that whatever tariff duties, port charges, and other commercial exactions there are, shall be applied equally to citizens of all nations. The American public has thus understood the phrase, especially since Secretary of State Hay secured pledges for the open door in China.

may be said that the drift of French colonial policy is toward assimilation.

### *Spain, Portugal and Italy*

Spain and Portugal, the oldest, and Italy, one of the newest of the colonial powers, have preferential features in the import tariffs of their colonies, and they also grant preferences in their home markets to products of their colonies. Adherence to a policy of colonial monopoly is traditional with Spain and Portugal. As regards Spain, her preferences were of greater significance before she lost Cuba, Porto Rico and the Philippines. Now, with but a remnant of her empire left, they are of little commercial importance. Portugal, however, controls large territories. Those which fall within the conventional basin of the Congo have their tariffs determined by the open-door provisions of treaties, but elsewhere—in Mozambique, Angola and several island colonies—she pursues a policy of preference. The preferences to colonial goods are also granted in the home market of Portugal, but since 1892 they have been limited to goods shipped in Portuguese vessels.

Italy's chief colonies are Eritrea, Somalia and Lybia. They are of comparatively little commercial importance. The duties are low, but the preferences in favor of Italian goods are substantial and the tendency is to increase them.

### *British Dependent Colonies*

In addition to the self-governing dominions, which I shall pass over for the moment, the British Empire consists of varied and numerous colonies, protectorates and spheres of influence. Some of them have a degree of fiscal autonomy; others have their tariff policy determined in London. After the triumph of free trade in the middle of the nineteenth century, Great Britain insisted upon the "open door" in her dependent colonies. But there have been a few exceptions. In 1913, as a result of negotiations between Canada and some of the British West Indies, preferences were granted to goods from Great Britain imported into those West Indian colonies. The Crown Colonies of South Africa, especially Rhodesia, which are a part of the South African customs union, have for years granted preferences to British goods. These

preferences, however, did not reflect the policy of the home government.

Since the Great War there has been a change in the attitude of the British government. With the introduction of preferential features in 1919 into the tariff of Great Britain, momentum has been given to a tendency to adopt preferential provisions in the Crown Colonies. During this year preferences were established in favor of British goods in Malta<sup>1</sup> and Cyprus and in those West Indian colonies which held aloof in 1913 from the preferential movement. Indeed, signs are not absent indicating a return by Great Britain to the policy of colonial exclusion which we had hoped had passed with the harsh days of mercantilism.

India has already adopted a preferential export tax on hides and skins of which I shall treat presently, and preferences in her import schedules are being considered. In 1903 a government report upon the establishment of preference to British goods in India, opposed such preferences on the grounds that it would cause difficulties in India's finances, that it would be of no considerable advantage either to India or to Great Britain, and that it would involve the danger of retaliation. A recent commission, after investigation, submitted its report during the present year without making any positive recommendations. It expressed the opinion, however, that in view of the demand for Indian raw materials, there was no danger of retaliation by foreign countries.

There is every evidence to suppose [the Commission stated] that the conclusion of peace initiates a period of keen competition for the world's raw materials. . . . If this view is correct and our export trade is not likely to be seriously prejudiced, the danger of disturbing our favorable balance of trade and the risk of our currency policy . . . need not give cause for serious anxiety. In this statement it is assumed that any preference to be given in India to Empire products shall in general be to a moderate extent. The view has not infrequently been expressed that one of the reasons why the world-wide extension of the Empire has hitherto received the acquiescence and even the good-will of the majority of foreign nations has been our adoption and maintenance of a policy of free trade. If the preference

<sup>1</sup> The preferences to products of the British Empire were included in the bill published in the Malta Government *Gazette* of March 24, 1920. These preferences, however, have since been abandoned. They do not appear in the new law enacted November 19, 1920.

accorded were excessive this good-will would disappear, while, on the other hand, a moderate degree of preference to Empire products should not be regarded by foreign nations as more than a matter of domestic concern.

The Commission concluded that "though India may have little to gain from a scheme of Imperial Preference, she is not likely to lose more than she gains", and "that a favorable rate of duty would be of no small advantage to the United Kingdom, in so far as the Indian import trade is concerned." Regarding the possibility of retaliation by the United States, the Commission expressed the opinion that, in view of the importance of Indian raw materials to American industries, it was "extremely improbable that the United States would introduce a tariff specially directed against Indian exports, and it seems probable that they could not do us much harm if they did."

### *Japan*

Japan's colonial tariff policy is assimilation. She has assimilated Formosa and Saghalin, and in August, 1920, the ten-year guarantee of the open door having expired, Korea was assimilated. Japan's disposition to adopt the closed door in her colonies receives its chief significance when considered with reference to those territories on the continent of Asia which she either controls or desires to control.

### *The United States*

With the exception of American Samoa, where the open door<sup>1</sup> is guaranteed by treaty, free trade exists between the United States and her non-contiguous territories, while foreign goods pay duties. Porto Rico and Hawaii are completely assimilated, the tariff laws of the United States being in force in those islands. The Virgin Islands, Guam and the Philippines have separate tariffs applicable to foreign goods. The treaty of 1898 with Spain granted to her for ten years equality of treatment in the ports of the Philippine Islands and as a result the open door was maintained there until 1909. It was then abandoned. American goods imported into the Islands were made free of duty, and conversely, with a few exceptions,

<sup>1</sup> Strictly speaking, the treaty between the United States, Germany and Great Britain, concluded December 2, 1899, simply guaranteed equal treatment to the commerce and commercial vessels of the three signatory Powers.

Philippine goods entered the United States free. Even the exceptions were omitted in 1913. The act of 1916 establishing the government of the Philippines reserves to the United States Congress the right to regulate the trade between this country and these Islands.

#### *Raw Materials and Preferential Export Taxes*

So much for the essential facts concerning preferential import duties by which nations seek to give their industries an advantage in trade in the markets of those territories over which they hold political control. Equally, and perhaps more, important are preferential export taxes and regulations by which nations endeavor to give to their industries a preferential advantage in the supplies of raw materials from their colonies.

Export taxes without preferential features may, under some conditions, be justifiable, although as a rule they are regarded as undesirable. They are forbidden by our constitution and are therefore unfamiliar to us. The only export tax directly authorized at the present time by the United States Congress is the export tax of eight dollars per short ton on sugar exported from the Virgin Islands. This tax, as well as the other export taxes inherited from the Danish regime, applies alike to sugar destined for the United States and foreign nations and is levied for fiscal reasons. Indeed, in countries which export large quantities of foodstuffs and raw materials, export taxes are frequently adopted as an equitable method of taxing production and are regarded as a substitute for land and poll taxes.

Preferential export taxes, however, raise fundamentally different questions. Before the war Portugal, alone of colonial powers, had adopted preferential export taxes as a general policy with the primary purpose apparently of building up her home entrepôt trade. Isolated cases, however, were not infrequent. The French had them in Indo-China; the Spanish in Fernando Po; and the Italians in Somalia. To exemplify the principles involved I shall give two additional cases in some detail.

#### *Tin Ore from Federated Malay States*

A differential export duty on tin ore from the Federated Malay States was established in 1903. There were export

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duties which applied to all exports of tin and tin ore, including those which were sent to Great Britain and other parts of the Empire but an additional duty of 30 Straits, or Mexican dollars, per picul was imposed on all ore exported without guarantees that it would be smelted in the Straits Settlements. In 1904 the United Kingdom was exempted from the provision of this duty and Australia was accorded similar treatment in 1916. This additional duty is prohibitive. A reason for this duty is given by Sir Frank Swettenham, who was Resident General at the time when the duty was imposed, in a book published about four years later.<sup>1</sup> He said: "An American attempt to transfer this tin-smelting to American soil, and so obtain, in time, complete control of Malay tin production, was frustrated by imposing a prohibitive duty on the exportation of tin ore and giving an equivalent rebate on all ore smelted in the Straits Colony." At the time the differential was imposed an American concern was making the first attempt to smelt tin ore in the United States. There was no danger of this concern monopolizing the Malay tin ore supply, as suggested. The true reason for the prohibitive surtax probably was to prevent any competition whatever with the tin smelters of the Straits Settlements.

#### *Philippine Hemp Duty*

The export duty on hemp from the Philippine Islands, which was remitted in the case of all shipments to the United States, will serve as a second instructive case. The export taxes of the Spanish tariff in the Philippines were retained by the United States when the Islands came into our possession. The most important of these taxes was that on raw hemp, which was increased under the tariff act framed in 1901 by a commission appointed by the War Department, from the Spanish rate of 37½ cents per one hundred kilos to 75 cents per one hundred kilos. The United States did not enjoy a preference under this tariff. But in the tariff enacted for the Philippines by the Congress of the United States on March 8, 1902, it was provided (Sec. 2) that Philippine products which entered the United States free of duty should, if destined for American

<sup>1</sup> British Malaya (1907), p. 333. Cf. "The Mineral Industry, Its Statistics, Technology and Trade During 1903," pp. 325 and 330-331.

consumption, be thereafter exempt from any export duties imposed in the Philippines. The loss in revenue to the Philippine treasury caused by the remission of the export taxes was to be made up by the provision that all duties collected in the United States on imports of Philippine products should be refunded to the Philippine treasury. As a matter of fact, however, according to official figures cited by President Taft, who formerly was head of the Philippine Commission, the Philippine treasury from 1902 to 1912 lost through remission of the tax on hemp more than a million dollars. There was vigorous opposition in the Philippines to the remission of the export duty on hemp exported to the United States. This opposition was voiced by the Philippine Commission in its annual reports, from which I have taken the following as typical:

It is a direct burden upon the people of the Philippine Islands, because it takes from the insular treasury export duties collected from the people and gives them to manufacturers of hemp products in the United States. These manufacturers were already prosperous before this bounty was given them and it seems hardly consistent with our expressions of purpose to build up and develop the Philippine Islands when we are thus enriching a few of our own people at their expense.

The provision for export taxes to the Philippines was finally repealed by the Underwood Tariff Act of October 3, 1913, and the Philippine Government Act of 1916 provided that no export taxes should be levied in the Philippines.

#### *The War and Raw Material Control*

The experience of the war period emphasized forcefully the vital importance of raw materials to advanced industrial nations. As essential as markets in which to sell goods are the supplies of raw materials from which goods are made. I had hoped that the exclusive policy embodied by the Allies in the Paris Economic Resolutions of June, 1916, was merely a military strategy, but it is still advocated and followed.

#### *Palm Kernels and Hides*

The British colonies of West Africa—Nigeria, Gold Coast, Sierre Leone—export large quantities of palm kernels—an important raw material in the margarine and soap industries.

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Before the war, about three-fourths of the West African palm kernels went to Germany. In 1916 a British committee studied the palm-kernel crushing industry and recommended the imposition of a surtax of £2 per ton to be remitted in the case of all shipments to points within the British Empire, with guarantees that crushing—the first step in the industrial process—should take place there. In a debate in the House of Commons, this tax was compared with the duty on hemp exported from the Philippines to the United States, which I have mentioned.<sup>1</sup> Its purpose was clearly to establish and maintain the crushing industry in Great Britain.

Perhaps of more direct interest to us is the preferential export tax imposed on hides and skins exported from British India. On September 17, 1919, an Indian export duty of 15 per cent on untanned hides and skins was established with a rebate of two-thirds of this amount on exports to be tanned within the British Empire. This differential compels the American tanner to pay nearly 10 per cent more for Indian hides than is paid by tanners in Great Britain and Canada. American tanners will naturally seek their supply of hides in countries which impose no export tax, but in so far as they have to buy Indian hides, they are at a disadvantage in marketing their product because of this differential tax on their raw material. Export taxes in a foreign country, which enhance the price of a raw material, increase the cost of production and tend to increase prices to the American consumer. They also handicap our producers in their competition in foreign markets.

### *The Open-Door Principle*

We must turn back to the heroic age of discovery and exploration of the fifteenth, sixteenth and seventeenth centuries if we are to understand the principles which underlie the colonial policies which I have just reviewed. The colonial monopolies of Spain and Portugal, the rise of the Dutch and their establishment of exclusive trading privileges in the Spice Islands, and the struggle of the French and English for colonial empire in America and in India, recall to us the harsh days of mercantile policy. The old colonial regime of each of these powers was based on the principle of the closed door.

<sup>1</sup> *Parliamentary Debates*, November 8, 1916, vol. 87, pp. 249-367.

Portugal made trade a state monopoly. Other nations granted monopolies to chartered companies, many of which became famous, as for example, the Dutch East India Company and the British India Company. Political control of colonies was assumed to give a nation the right to exclusive exploitation. Prohibitions and restrictions were often enforced by military power and became the very basis of colonial policy. These were also the days of the navigation laws. The American Revolution gave the first rude shock to this theory of colonial government, but it by no means swept it from the commercial policy of nations.

Enthusiasm for colonies cooled perceptibly after the Wars of Napoleon and did not flare up again until the '70's of the last century. The teachings of the French revolutionists and the classical economists contributed to a public sentiment which regarded colonies as a burden. In France alone did the anti-colonial movement have little influence with the government. In the British Empire, particularly, the free-trade movement resulted in an abolition of practically all preferential features. Then came that extraordinary revival of interest in colonies beginning about the time Stanley emerged from Africa in 1877 and sweeping on with increasing force to our own day. It came for many reasons. National sentiment was uniting the German and Italian states and national pride as well as a desire for power prompted statesmen to seek new possessions. The growth of industry—large-scale production—and the improvements in communication and transportation made certain classes in the more advanced nations desire foreign markets and foreign sources of food and raw materials.

When this reawakening came, Spain held sovereignty over only a shadow of her former empire. Portugal claimed wide expanses of territory in Africa to much of which other powers did not concede her right. The Netherlands still held the Spice Islands. These three powers took a new interest in their colonies but sought no new territory. France had a respectable empire and had footholds on the coasts of Africa from which she later pushed into the hinterland. Great Britain had under her control the greater part of her present wideflung empire. Belgium, Germany, Italy, Japan and the United States, each of which subsequently became a colonial power,

had at this time no possessions at all.<sup>1</sup> Nations, looking over the earth for opportunities for colonial expansion, found the American hemisphere closed to them by the Monroe Doctrine. Had it not been for the policy of the United States, it can not be doubted that spheres of influence would soon have been staked out in Latin America by the land-hungry powers of Europe. The powers which took part in the scramble for colonies turned their attention to Asia, where they began to define their "spheres" in utter disregard of the rights and desires of the yellow and brown man, and to Africa, which they began to partition among themselves.

Even at that time the open-door principle was not without its defenders. From various motives Great Britain, Belgium, the Netherlands and Germany maintained it in their dependent colonies. John Hay's famous "open-door" notes saved the integrity of China in 1899. In the same year a treaty between the United States, Great Britain and Germany partitioned the Samoan group between the United States and Germany<sup>2</sup> and provided that the three powers "shall enjoy in respect to their commerce and commercial vessels, in all the islands of the Samoan group privileges and conditions equal to those enjoyed by the sovereign Power." In 1898-9 the French and English agreed to maintain for thirty years the open door in Dahomey, the Ivory Coast, Nigeria, and large areas in Central Africa. In 1906 the Anglo-French open-door treaty affecting the New Hebrides was adopted and in the same year the international conference at Algeciras established the open door in Morocco. Probably the best known of the open-door treaties was adopted at the Berlin Conference in 1885. A revision of it was signed in 1919, but has not been ratified. Under this treaty freedom and equality of trade in the conventional basin of the Congo and unrestricted navigation of the river are guaranteed. These open-door treaties and understandings have, in most cases, been adopted with reference to territories over which no one nation held undisputed control and in the conflict of interests which arose, a solution was sought in granting to each nation equal opportunity to trade.

<sup>1</sup> United States had Alaska.

<sup>2</sup> Great Britain received compensation elsewhere.

*The Open Door and Mandates*

The basic commercial theory of mandates under the League of Nations is the open door. Article XXII of the Covenant, it is true, provides for "equal opportunity for trade and commerce" only in the case of Class B mandates. The principle governing Class A and Class C mandates is to be sought in the general spirit of Article XXII and in the provision of Article XXIII providing for "equitable treatment for the commerce of all members of the League." There are those who advocate the policy of the closed door in mandated territories. New Zealand has already extended her preferential duties to the portion of the Samoan group which she holds under a mandate, and the South African Union has assimilated German Southwest Africa. There have also been discussions of equal opportunity in the exploitation of the resources of Mesopotamia.

Less known than some of these cases, but of absorbing interest, is the case of the Island of Nauru, which not only illustrates the issues involved in the mandates, but illuminates colonial policy generally. The Island of Nauru is situated in the Pacific Ocean to the west of the Ellice and Gilbert Islands and south of the Marshall Islands and is believed to be the largest reserve of high-grade phosphate in the world.<sup>1</sup> The Island was annexed by Germany in 1888 and on September 9, 1914, was surrendered unconditionally to an Australian ship. It was turned over by the Allied and Associated Powers under a mandate to the British Empire. The phosphate concession was held from the German government by a private syndicate. On July 2, 1919, the governments of Great Britain, Australia and New Zealand entered into an agreement to purchase this concession. This agreement provided, among other things, that the phosphates are to be sold at cost to the three governments, the cost price to include interest, a sinking fund for the payment of the capital, working expenses and contribution to administrative expenses. No phosphates are to be sold to or for shipment to any other country until after the requirements of Great Britain, Australia and New Zealand

<sup>1</sup> Announcement has been made recently of rich phosphate deposits discovered in Morocco.



have been met, and then only at the market price. The agreement was ratified by Australia and New Zealand and when presented to the House of Commons called out a very interesting debate. The British government contended that the agreement was not contrary to the Covenant of the League of Nations. Colonel Leslie Wilson, the Parliamentary Secretary to the Ministry of Shipping, who sponsored the bill for the government, declared that the question of this transaction between the three governments was

entirely distinct from any other question which might arise as to the mandate under the League of Nations. This is a purely commercial transaction between the phosphate company and the three governments concerned. Whatever happens, I can not see that the League of Nations has any right to interfere with this particular transaction between the company and the governments concerned. I do not see the difference between the purchase of this trading company by the three governments and the purchase by an individual.<sup>1</sup>

Colonel Wilson even went so far as to deny that other nations were entitled to equal treatment in trading with Nauru.

The mandate [he asserted] was granted to the Empire. . . . There is no doubt from the papers laid on the table of the House, and from facts which have been accepted by that great exponent of the League of Nations, General Smuts, that there never was the slightest intention that Class C mandates should be subject to the principle of the open door.<sup>2</sup>

Mr. Bonar Law, leader of the House, takes the same position.

Nauru in effect is a phosphate island [he argued]. It has been a commercial undertaking. It was in the possession of a company, . . . and if we do not pass this bill, that company would have every one of the rights which we are now claiming for the British Empire. It could treat the product of that Island in any way it liked, and therefore it is obvious that, so far as the general good of the world is concerned, nothing is lost by transferring this power to a body represented by the British Empire as compared with a private trading company.<sup>3</sup>

He declared, however, that

passing this bill does not in any sense preclude the League of Nations, if

<sup>1</sup> *Parliamentary Debates*, House of Commons, vol. 130, no. 78, p. 1358; and no. 80, p. 1609.

<sup>2</sup> *Ibid.*, vol. 132, no. 102, p. 195.

<sup>3</sup> *Ibid.*, vol. 130, no. 78, p. 1324.

they think the arrangement is an unfair one, from refusing to confirm it. . . . I have myself no doubt that the League of Nations will agree to it.<sup>1</sup> I do not think any supporter of the League of Nations could say that they have the right to upset a purchase of this kind. They have the right to interfere with the administration. I think this is so vital, that I would like to make it clear. . . . The two questions are quite distinct. One is the administration of territory, which the League of Nations has a perfect right to see is properly done. The other is the purchase of a trading company. I do not think that is a subject which would properly come under the League of Nations at all.<sup>2</sup>

On the subject of the "open door" the leader of the House said:

It is only in the fifth paragraph of Article XXII of the Covenant of the League of Nations that "equal opportunities for the trade and commerce of other members of the League" are expressly provided for. The territories to which this provision applies are those which formerly constituted German East Africa, the Cameroons and Togoland. In the case of the former German colonies, which, under the sixth paragraph of Article XXII are to be administered "under the laws of the mandatory as integral portions of its territory", the provision of equal opportunities for trade and commerce will be a matter for the discretion of the mandatory.<sup>3</sup>

The position of the government was vigorously assailed in the debate on the bill, particularly by the Liberal and Labor parties of the House, who charged that the agreement was a violation both of the spirit and letter of Article XXII of the Covenant of the League of Nations. Mr. Ormsby-Gore questioned the right of a government which is acting as a mandatory to establish a government monopoly of the raw materials of the territory of which it is trustee.

That is a root principle [he said]. Because, if that is once established, I do not see why the French in the Cameroons should not establish a government monopoly of all the native produce of that country, and why all the produce of other places should not be similarly regulated. . . .

A great many people want to see the League of Nations a reality and to see the Treaty of Versailles carried out, and they do not want this country to be the country which is going to fly in the face of a conference with results which are bound to be extremely far-reaching, because it is really a test question. If these mandates are a sham, are only camouflage, it is much better to be out of the Covenant, much better to withdraw our signature

<sup>1</sup> *Ibid.*, p. 1326.

<sup>2</sup> *Ibid.*, pp. 1326-1331.

<sup>3</sup> *Ibid.*, vol. 131, no. 97, p. 2164.

from the Covenant. Then we should know where we are. Either you are going to act up to Article XXII or you are not, because that is going to be the question asked in Mesopotamia, Palestine, and all these countries of the world. There is no use in saying that we are working this in the Belgian part of East Africa, that we will see that the French are not allowed to conscript people in Togoland under Article XXII, but when it comes to applying that article to our possessions, then we are going to tear up the mandatory principles and create these government monopolies.<sup>1</sup>

Lord Robert Cecil, leader of the opponents of the agreement bill, said:<sup>2</sup>

Some honorable gentleman suggested that this is nothing but sanctioning a purely commercial agreement handing over the powers of the phosphate company to the British Government. It is nothing of the kind. The phosphate company, in fact, was working under the German Government—let us remember that—and while working under the German Government it traded freely with those who became subsequently the enemies of Germany. . . . Here we are going to preclude the possibility of a single ton of phosphate being sold to anybody except the three governments concerned and for our own personal use.

I will not say [he continued] if the League were to sanction that arrangement that that would not be consistent with the terms of the Covenant, but I do say it is altogether inconsistent with the spirit of Article XXII. Undoubtedly, there was no idea that the mandatory was to use this power in order to secure a monopoly of the riches of the mandated country. That is absolutely inconsistent with the whole framing of Article XXII.

It seems to me if we go on with this proposal it is perfectly fatuous for us to talk any more about scraps of paper.<sup>3</sup>

Mr. Herbert H. Asquith, leader of the former Liberal Government, asserted that the agreement is one which

has no legal or international validity of any sort or kind and which indeed, in the terms in which it is made, is in flagrant contravention of both the letter and the spirit of the Covenant of the League of Nations. It is a small case in itself, but it would be a precedent. If this is done in the case of the Island of Nauru, there is no reason why similar agreements should not be secretly and behind the back of the League of Nations concluded all over the world.

This is the latest form of preference! Here is a mandate given to the British Empire, confined so far as its practical operation is concerned to three of its constituent members, and, what is much more important, when you come to hand over the phosphates for them to go to three selected parts

<sup>1</sup> *Ibid.*, vol. 130, no. 78, p. 1311 *et seq.*

<sup>2</sup> *Ibid.*, p. 1321.

<sup>3</sup> *Ibid.*, p. 1319.

of the Empire and not to the rest. . . . You are going to give preferential treatment to particular parts of your own Empire as against the rest of the world. A worse example to set and one in more open contradiction to the provisions of the fifth paragraph of Article XXII, which provides that in the execution of a mandate equal opportunities shall be secured for the trade and commerce of all the other members of the League, I think it is impossible to conceive. It is illegal in its origin, unequal in its operation, it is opposed in all respects to the letter and the spirit of the Covenant of the League of Nations.<sup>1</sup>

The bill providing for the ratification of the Nauru agreement was finally amended in its ratifying clause to read

the agreement is hereby confirmed, subject to the provisions of Article XXII of the Covenant of the League of Nations.<sup>2</sup>

#### *British Preferential Tariffs*

I made only passing reference in my discussion of colonies to the self-governing dominions of the British Empire, since they are hardly to be classed as colonies. The bond between them and Great Britain has been referred to as an "alliance," and that relationship seems more accurate than the relationship of mother country and colony. The self-governing dominions—Canada, Australia, New Zealand and the Union of South Africa—are, in all internal matters, independent, and in foreign affairs their desire is now seldom, if ever, disregarded by the London government. Empire sentiment has grown and thrived among them, but they make all their own laws, including protective tariffs which protect their industries against those of Great Britain. They are not bound by provisions in British treaties unless they elect to be (except in the case of a few old and unrevised treaties). Their divergent interest and freedom of independent action in this respect is safeguarded by a provision inserted in the treaties of Great Britain since the beginning of this century making these treaties applicable to British colonies, possessions, protectorates beyond the seas only upon notice to that effect given through the British Foreign Office. Separate withdrawal, as well as separate adhesion, is also permitted to the overseas possessions upon notice. Canada conducted the reciprocity negotiations of

<sup>1</sup> *Ibid.*, pp. 1322-23.

<sup>2</sup> The Nauru Island Agreement Act, 1920 (10 & 11 Geo. 5, Chapter 27).  
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1910-11 with the United States direct and not through the Foreign Office at London. These dominions entered the Great War of 1914-18 voluntarily and the London government was not in a position to compel them at any time to send a single soldier or to pay a single dollar. They maintained their own overseas units. They sat in the Peace Conference as nations, signed the Peace Treaty as nations, and are participating in the League of Nations as nations. South Africa, New Zealand, and Australia were granted former German territories which they now hold under mandates. Even in recent months we have heard it seriously proposed that Canada and Australia shall send ministers to Washington.

Nevertheless, the most elaborate system of tariff preferences in the world is found in the tariffs of these dominions. These preferences discriminate against nations outside of the British Empire with whom the dominions claim the privilege of sitting as equals in the councils of nations and even against parts of the Empire. The dominions give preference to Great Britain and sell it to each other. The Customs Union of South Africa grants preferences to Great Britain; New Zealand imposes a surtax on all goods imported from points outside the British Empire; and Australia, which established preference in favor of British goods in 1907, enacted in 1920 a three-schedule tariff granting to British goods substantial preferential treatment and yet leaving the minimum duties sufficiently high to protect the nascent industries of Australia.

The Canadian tariff is most familiar to us in the United States. It has three schedules, the lowest or preferential tariff, granted to goods imported from the United Kingdom and from reciprocating parts of the British Empire; the intermediate tariff, used for bargaining with other nations, and the general, or highest, tariff, imposed on all other goods. The United States pays the general tariff.

Most striking in the system of British preference has been the development of preferential agreements among the different parts of the British Empire. They recall the exclusive reciprocity agreements of the United States under the tariff acts of 1890 and 1897, of which the American preference in the Brazilian market is the sole surviving remnant. Today there are special agreements between Australia and South

Africa, between New Zealand and South Africa, and between Canada and the British West Indies. This last-named agreement became effective in 1913. A revision of it was signed on June 18, 1920, and as yet has not been ratified by all the parties. Under it Canada receives substantial concessions in the tariffs of the British West Indies and grants in return substantial preferences to British West Indian goods imported into Canada.

The modern policy of preference in the British Empire originated in the dominions. For years the British government withstood the urgings of the colonies to grant their products preferential treatment in the markets of Great Britain. The war, however, brought a change. Preferences in favor of Empire goods were introduced into the whole schedule of dutiable articles in the British budget of 1919. The list of products includes, among others, tea, cocoa, coffee, currants, sugar, tobacco, wines and spirits. More significant than the preferences on this limited list of imports is the fact that the principle of preferential tariffs has at last been recognized by the British government. During the debate on the budget of 1919 it was proposed to extend the privileges of the preferential provisions to the mandated territories, and to do this there was added to the definition of "British Empire" in the original bill the words "or is a territory in respect of which a mandate of the League of Nations is exercised by the government of any part of His Majesty's Dominions."

### *The Menace of Trade Wars*

The conditions which I have reviewed today constitute a problem not only for the United States but for every nation. Its solution depends fundamentally upon the spirit in which it is approached. If it be said uncompromisingly that reciprocity agreements and colonial preferences are *domestic* questions, no progress can be made. Nations have, under the commercial standards of the past, an abstract right to impose practically all the discriminations I have mentioned. Bargaining and penalty tariffs<sup>1</sup> have been, with rare exceptions,<sup>2</sup> con-

<sup>1</sup> United States Tariff Commission Report, "Reciprocity and Commercial Treaties."

<sup>2</sup> Trade war between Germany and Canada, *op. cit.*, p. 479.



sidered applicable only to cases of direct discriminations in national tariffs and the most-favored-nation clause in modern commercial treaties does not usually apply to special relations between colonies and the mother country. It is, therefore, not a question of right which is before us. Each nation may stand on its rights and let the world go hang. Statesmen may cling to

“ . . . the good old rule,  
 . . . The simple plan,  
 That they should take who have the power  
 And they should keep who can.”

But we get nowhere by this international anarchy. What does it profit if one nation justifies its acts of discrimination by citing those of others? Or how can one nation expect to succeed in its protest against discriminations if it refuses to give up its own? In the United States we can not consistently object, in the absence of treaty provisions, to the preferential systems of other nations so long as we retain our large preference in the Philippine market. Nor can we expect to arrest the spirit of discriminations and retaliation if we carry into practice the monopolization of Philippine shipping and the tariff discriminations in favor of goods imported in American bottoms proposed by the Merchant Marine Act. Nor can other nations expect the United States to remain indifferent while they continue to stake out exclusive preserves in the rich territories over which they hold political control.

Colonial tariffs and preferential systems, as a matter of fact, constitute a problem whose solution calls for liberal and constructive statesmanship in every nation. Today surely is no time to be dogmatic in commercial policy or to fall back on the discredited practices of the past. The adoption of the principle of equality of treatment, however, is unquestionably the first step in any plan for peace. If it be good in the case of Central Africa and other territories whose commerce is regulated by open-door treaties, it is equally desirable in other parts of Africa, in Asia, and Oceania. Exceptions are, no doubt, admissible. Let us not deceive ourselves by enlarging on things unimportant. There are cases of preference which will be readily conceded by all to be just. It is not these, however, which menace us today with trade wars. It is those compre-

hensive schemes which seek, by tariffs and other restrictions, to monopolize the markets and resources of vast undeveloped areas of the earth.

A few principles suggest themselves which should guide the commercial policy of the United States in the present situation. We should, on every possible occasion, insist emphatically upon the enforcement of existing open-door treaties and understandings and refuse to permit them to be abrogated or evaded. We should oppose the extension of colonial control over new territories or the granting of mandates except where it is accompanied by the strictest of guarantees of equality of treatment. It may even be advisable for us to seek, through new commercial treaties, the guarantee of national treatment in the colonies of those nations which still maintain the open door. Desirable as these policies are, however, they are not sufficient. It is necessary to recognize that preferential tariffs and restrictions constitute a problem which can not be solved by nations acting singly, or bargaining two by two. They present an excellent case for conference and cooperation among nations. Little will be accomplished until we recognize that tariff and other preferences are essentially international problems<sup>1</sup> which can be solved only by men willing to look beyond the narrow limits of national commercialism and to see the real

<sup>1</sup> Nations have retained, and for the immediate future at least will continue to retain, the right to levy a reasonable tariff on goods they import from abroad. How high or how low the tariff duties of a nation should be is a question primarily for domestic determination. The need of a government for revenue or of the people for food and raw materials and the stage of industrial development in which a nation may find itself constitute the determining factors. Even in the case of bargaining tariffs these factors determine the effective minimum rates.

As distinguished from the height of tariffs, preferential and discriminatory rates raise a different question. These are more obviously and always matters of international concern. When a country places the products of one people on a more favorable tariff basis than the products of another people, it has sown the seed of international illwill. Plausible arguments in favor of reciprocal arrangements and preferences do not alter the hard fact that a nation discriminated against by another has a grievance which it may nurse into a hatred. In a world where economic interests are inseparably interlocked, he is on the defensive who holds that inequalities in tariffs are not subjects for international discussion—perhaps for international decision. From Culbertson, W. S., *Commercial Policy in War Time and After* (1919), pp. 263 and 267-68.

interest of each nation in the harmonious cooperation of all. If no stay is given to discriminatory and exclusive practices which now mark the policy of almost every important nation, we shall go forward into a period of trade war and conflict from which we shall look back even upon the conditions of this day as the happy state of a golden age from which we fell.

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## TARIFF READJUSTMENTS AND TRADE EXPANSION

ALBERT GREENE DUNCAN

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I WILL try to sum up, if possible, the significant phases of this discussion. I want particularly to commend the able paper of Mr. Kies.<sup>1</sup> He has given a picture of the relation of America to the disordered conditions in Europe that I have hardly seen equaled and I would commend him because he presents no prepared panacea. All he demands is the most intelligent and thoughtful discussion of this matter with a view to its ultimate solution. He takes, I am glad to see, as a fundamental basis of his argument, the statement that our industries should be protected against a ruinous flood of imports. It is significant that he used the word "ruinous". Next he states that our production of manufactured goods and of farm products should be increased to the maximum so that our valuable home market could be preserved by the lowering of costs thereby brought about. As the third fundamental, but as a corollary of the other two, he asserts that our export trade should be increased to utilize our surplus products in every wise and proper manner. He has called our attention to the remarkable fall in the rate of exchange, the vast difference in the wages paid by countries abroad and by our own; and his paper, I believe, will warrant the most careful study as a plan of the foundation on which can be built the superstructure of our future financial and industrial relations with other countries.

The next two papers<sup>2</sup> take opposite sides on the very vexed

<sup>1</sup> See *supra*, p. 145, "Fundamental Factors in the Present Economic Situation in Europe," by W. S. Kies.

<sup>2</sup> See *supra*, p. 176 and p. 159, "A Tariff Policy for a Creditor Nation, from a Low Tariff Point of View," by E. F. Gay, and "A Tariff Policy for a Creditor Nation Considered from a Protective Tariff Point of View," by E. N. Dingley.

question of the tariff. I feel it is perfectly proper for me to leave the discussion of that question just where Mr. Gay and Mr. Dingley leave it. I am frank to say that the opposite extremes of free trade and protection have been ably presented. Personally, speaking as a manufacturer, I would say that free trade is a beautiful theory but after an experience of three changes in tariff policy in this country, when we adopted a tariff for revenue only, which is a sister of free trade, I say to you that it will not work and it is not working today.

From the first of January to the first of October, 1920, there have been imported into this country five times the number of square yards of cotton goods that were imported last year, or practically in any year with one exception since 1912, and the cotton industry today is working on less than fifty per cent production, and about twenty-five per cent of our mills are absolutely closed. There may be no connection between five times the increase in importations and fifty per cent decrease in domestic production, but speaking as a cotton manufacturer whose mill is closed, I think there is.

There are one or two facts not brought out in these papers that I believe should be injected into this discussion. The first is the confusion which has arisen in not distinguishing between the value and the quantity of exports and imports. From 1914 to 1920, speaking in fiscal years, we are told that our export trade has increased by the astounding sum of five and one-half billion dollars. However, a recent statement by a statistician of the National City Bank, Mr. O. P. Austin, ably analyzed the quantities of commodities exported which were expressed in barrels and bales and bushels and tons in comparison with their value in dollars. He reduced all our exports to pounds and found that from 1914 to 1920 our exports had increased the relatively insignificant sum of thirty-five per cent in volume, while their value had increased two hundred and twenty-four per cent. Figuring in the same way the things we buy—our imports—he found that during the same period they increased in quantity sixty-six per cent, while their value increased two hundred and forty-four per cent. In other words, while our favorable trade balance, so-called, if expressed in dollars shows a remarkable increase in our favor, yet if our total foreign trade is reduced to quantities, it appears

that our imports are increasing faster than our exports. Then he was curious and he looked back to see what the normal increase in exports had been in previous years, taking the same measures of quantity not value, and he found that from 1908 to 1914, the preceding six years, the quantities of exports of this country had increased twenty-five per cent which might be taken as a normal increase of our export trade, expressed in pounds, gallons, bushels and tons.

Now if under the abnormal condition of the world-war years when all nations have been willing to pay any price for commodities to equip their armies and save their people from starvation and freezing, when we have exported coal all over the world at a value hitherto unknown to ourselves or any other nation, we have only increased our exports ten per cent over the normal, it seems to me that as the value of these commodities comes down, all this favorable trade balance that the free traders are afraid of, and insist must be settled by imports, is going to disappear.

We will take the case of cotton with which I am familiar. In 1914 we exported four and one-half billion pounds of cotton, raw cotton at an average price of thirteen cents a pound. In 1920 we exported three and one-half billion pounds of cotton, twenty-five per cent less, at an average price of thirty-nine cents a pound. In other words, we received one hundred and twenty-five per cent more for the three and one-half billion pounds of cotton we exported in 1920 than for the four and one-half billion pounds of cotton we exported in 1914. Cotton today can be exported not at thirty-nine cents but at fifteen. Wheat can be exported, not at over three dollars, but for less than two dollars. It is the quantity of these commodities and not their fictitious value in an inflated dollar that we want to consider when dealing with these concrete problems.

In continuation of what Mr. Dingley says about being a creditor nation to one part of the world and a debtor nation to others, I want to ask the question, why not settle international trade balances, not on the direct, but on the triangular method of international exchange? Before the war there were many nations in South America and other parts of the world, where we did not export more than ten per cent of the amount



of the material that we imported. Brazil is a particular example. We imported cotton, to a limited degree, coffee, rubber and hides, and we sold them a very small amount of cotton goods and machinery.

With wages in other countries—and wages after all are seventy to eighty-five per cent of the ultimate cost of all manufactured goods—amounting to one-third to one-fifteenth of our own, why not allow our distressed brothers of Europe to export their cheap cotton and woolen goods and other manufactured articles to Brazil? We will pay the Brazilians in good American dollars for their products, which good American dollars our European competitors will gladly take and in them pay us our bills. Previous to the war, the international balance was settled on the basis of a draft on London. On whoever the international draft of the world may be drawn in the future—whether the financial capital may return to London or be located here in New York—it seems to me makes but little difference. If there can be a triangular interchange, as there was before the world war, instead of direct barter as the free traders would have, the international balance in our favor will in time, to my mind, disappear.

I do not feel that it is possible in the space limits allowed me to discuss the question of the fixed indebtedness of foreign countries to our own. There is one thing that we do know, that they owe us approximately ten billion dollars which we advanced and took their bonds in payment for their war needs. As a manufacturer I want to record my belief that it would be wiser financial policy for our government and our people to forget that debt rather than to put in jeopardy the mills, the farms and the factories of this country in an attempt to force the payment of that debt in commodities manufactured at a labor cost, as we have been told, from one-third to one-fifteenth of our own.

## THE ECONOMIC SITUATION IN RELATION TO FOREIGN TRADE

IRVING T. BUSH

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**W**E here in America are especially fond of what we call an optimist, and I have never been quite sure in my own mind what an optimist really is. I have heard many definitions, most of them intended to be funny and some of them really funny. If an optimist is one of these leather-lunged gentlemen who gets on his hind legs on a soap box and tells us that everything we want to happen is sure to happen at once, why I am not an optimist. If, on the other hand, an optimist is a man who realizes the difficulties of the situation and yet has such confidence in the American people, in their capacity and courage, to think that they can overcome those difficulties, then I am an optimist and not a fool. I think that many of the definitions of an optimist that I have heard would apply more to a fool than to a genuine optimist. I am saying this because I am asked to introduce the subject: The present economic situation in relation to foreign trade conditions. It may be that my introductory observations will lead some persons to think that I am a pessimist and not an optimist. I am not a pessimist. I realize the difficulties of the present situation but I have an abounding conviction that the American people will overcome the difficulties of the present just as they have overcome the difficulties of the development of this great country, from a humble beginning into a great nation.

I have used once or twice before a simile which I think will give a very simple explanation of what I have in mind. I have said that the world is nothing but a great community, and in order to visualize what has happened or what is happening today in our economic and trade relations, it is a good thing to think of the world as merely a small town. At the beginning of the war the manufactured commodities came from seven shops in this small town. (The raw products came from all parts of the globe.) Three of them, England, Germany

and the United States, were the great department stores of the town. The others, France, Italy, Belgium and Austria, were the specialty shops that supplied the luxury articles of the world. The war began; and all of these shops, except one, were closed. It is true, England was partly open, but her merchant marine was so occupied with the affairs of war that many of the sales to her markets were curtailed and the commerce of the world came to us. The orders of the world were laid upon our counters. We did not achieve it. It was thrust upon us, and during the war there was no other nation functioning as this country functioned to supply the wants of the world. We could lay down our own conditions, we could demand cash and we did not build up the intricate trade machinery which was the product of generations in the countries of the world which were before the war the great export nations of the world.

The war has now ended. The other shops of this town that I have alluded to are opening. The factories of England and of France and the other nations of Europe are getting each day on a greater productive basis; and even if there were no other difficulty it would be perfectly reasonable and rational to expect that the reopening nations of Europe would do their share of supplying the markets of the world.

But in addition to this return to a normal basis, other difficulties confront us, particularly that of foreign exchange. Many of us hear of foreign exchange and our own business or affairs not being in international markets, we do not know exactly how it operates for or against the export business of this country. I have tried to visualize this situation once or twice by taking a foreign merchant in any of the South American countries or any of the neutral markets of the world, we will say Argentina, for an example, who has \$10,000 which he wishes to invest in goods to be sold to his home customers.

He comes to New York; he finds that his \$10,000 in Argentine dollars will buy just \$10,000 worth of our merchandise. He goes to England; he finds that because of the depreciation in the value of the English pound internationally, that his \$10,000 in Argentine dollars will buy we will say \$14,000 or \$15,000 worth of English goods. He goes to France; he finds that the franc has depreciated even more and he can buy more of French goods. If he goes to Germany, he finds that

he can buy the whole German Empire for \$10,000 and become the Kaiser, perhaps.

So you will see that with these two forces operating against us, the reopening of the other shops of the world, and the difficulty which has been created by foreign exchange, it is exceedingly unreasonable for us to expect that the great volume of export business which we have enjoyed during the war can continue upon a permanent basis; and we must face that fact and adapt ourselves to the new conditions.

I believe that the real difficulty with the American in foreign trade is the fact that he never has really gone after it; he never has made up his mind that he wanted it. Necessity is the mother of a great many things besides invention. When the foreign markets of the world become an actual necessity to the American manufacturer, I have confidence that the same energy, the same resourcefulness which has built up this country to its present position, will be applied to the capturing of a fair share of the foreign markets of the world, but until that time comes, if we are going to do as we did before the war, use the foreign markets merely as a dumping ground for the surplus of our products here, if we are to try to sell to them the things which we manufacture for our own markets and not find out the things which they want manufactured for them, we can not make very great or definite progress.

In order to accomplish great progress, many things must happen which have not happened yet. England, particularly, which has been the great trading nation of the world for generations, and Germany secondarily, had built up intricate international trading machines. They have had agents and branches in every part of the world, not only finding out what those markets need and booking orders for the home factory, but keeping in touch with every change in style and demand and giving that information to the manufacturers at home. During the war we built up a limited number of foreign trading organizations but they are comparatively limited in number, and the orders came so easily and the margin of profit was so great that we have not yet built a machine which has indicated that it can live under the close, grueling competition of peace days.

It is necessary for us to build a great merchant marine and to see that it is efficiently and economically operated. We have

established the beginning of a merchant marine but there are many things besides building the ships. The mere creation of the officers and the crews for a ship (and that is necessary for a great merchant marine) is something that cannot be done overnight; it is something that will take a generation at least to bring about.

We must create our trading offices all over the world. We must create a machinery for taking care of our ships, and one of the principal things we must create (which we have not had before and which we only have the beginning of now) is a great international banking machine to take care of the finances of foreign trade. All of these separate units must be created and then they must be made to function together in one great machine for the commerce of this country.

I believe that when the time comes that the manufacturer of America needs a foreign trade, when he finds that it is a necessity, all of these things will be accomplished. I am not a pessimist about the future of this country in its foreign trade, but I believe that it is utterly foolish for the leaders of thought always to prophesy good times and a boom next week. That is not the information that the masses of the business people of this country need. They need to be told the facts so they can face them.

The facts are today, so far as our export trade after the war is concerned, that we have lived through the heyday of great years of prosperity, and we have come now to a point where we must adjust our affairs to a basis where we can compete with other nations. One of the most fortunate things which will happen to this country, I believe, is the bringing of it back, through perhaps a slacking of trade in our export markets, to a realization that this country was not made a great country by conversation. It was not talked into existence. It was made a great nation because the people took off their coats, went into the forest and hewed down the trees and created new towns and industries. It was made by work. The world has been trying to find a substitute for work and there is no substitute for work but disaster, and the best thing that can happen to us is a realization that the old simple thoughts of our forefathers, of thrift and honesty and hard work are the thoughts which we must have, and that that road of honest endeavor, of giving an honest return for whatever compensation we receive, is the road which we must travel.

## THE ECONOMIC SITUATION IN THE ORIENT

THOMAS W. LAMONT

Of J. P. Morgan & Co., New York

**A**MERICA'S material interests in the Far East are already considerable, and they are growing apace, but she has other interests there which far outweigh the material ones. The topic for general discussion here has to do with America's foreign trade, and I have been asked to speak of that trade with the Far East. Alluding first to Japan, I would point out to you that ten years ago our total trade with that country was \$88,358,071. In the year ending June 30, 1920, that same trade had grown to the proportions of \$980,367,930. Of Japan's total export and import trade, approximately 40 per cent is now with the United States of America. In the year 1919 over 95 per cent of Japan's valuable trade in silk was with us.

If we are looking to increase our prestige and our trade in foreign markets, we must study the characteristics of these people with whom we hope to trade. We must study very especially their points of view; and now perhaps of all times it is the most important thing for us to study the viewpoints of these Eastern peoples, because they have a very distinct individuality of their own. Suppose we look at Japan first of all: Japan came out from her feudalism fifty years ago, and of all the nations upon the earth, in the half century that has elapsed, Japan has made the most gigantic strides in a material way. Yet when we go to Japan and when we talk with the Japanese and when they point out their own needs to us, we realize that Japan has a far road to travel yet and we realize that America can help her travel on that way.

Japan is a land which, despite its wonderful picturesqueness, the cleverness of its people, their beautiful artisanship and artistic instincts, is yet greatly undeveloped. The Japanese are exceedingly anxious to develop their country. They realize that now their roads are very bad. Japan would like to have American capital to assist her in building a system of



good roads, in constructing interurban trolley lines. She wants both American capital and American material. The same holds true when it comes to the upbuilding of her factory and industrial system. The future of Japan economically depends upon her development of industry and manufacture. Agriculturally her development is restricted; less than 15 per cent of her land being under cultivation, the balance of her territory being rocky and mountainous. Therefore, Japan must become a strong industrial nation and one exporting manufactured goods. To reach that point of attainment she greatly desires American capital, materials and cooperation.

The Japanese look to us to assist them in becoming an industrial nation, and in ways legitimate to us and in no way harmful to our own interests we can help in that respect. One Japanese capitalist said to me that they wanted our cooperation in sending machinery there, in sending capital there, in developing the great water powers of Japan, by reason of the fact that Japan is so lacking in coal at the present time. What, then, is the attitude of America as an investor in Japan at the present time? I ask that question very especially, because today there is a Japanese question that is confronting us and here in America, after returning from the Far East, I find almost all my countrymen either strongly "pro-Jap" or strongly "anti-Jap". As I said to the men of affairs in Japan, "You cannot expect at the present any great amount of capital to flow from America to Japan, not for the reason that the whole world is short of capital for the moment (although that is true), but because there are certain tendencies in the Japanese national life that, to our minds, must be headed in a little different way if we are to feel free to cooperate in Japan with you on a grand scale."

Japanese themselves, that is to say, the Japanese liberal element, were the first to point out to me, a cleavage between that liberal element on the one hand that wants to move forward along the same lines that America is moving, and the so-called Military Party on the other hand, that goes back to the time when Japan was a feudal nation and that still believes that Japan's only way to make herself secure and to make progress is to maintain a very large army and a very large navy and to make expeditions into Siberia, or perhaps

to other points on the coast of Asia. As I said to the Japanese, and as I believe every business man in America will agree, "Not until that tendency (toward imperialism, so-called) in Japan has been somewhat changed shall we see a change in the attitude on the part of our American investors."

We all have heard a good deal about the military party in Japan, and we ought to study its situation, to try to see its "pros" and "cons". You are aware perhaps that the Japanese constitution provides that when the premier of Japan picks a new cabinet, and when he comes to naming the Minister of War and the Minister of the Navy, he is compelled to choose certain nominees of the general staffs of the army and of the navy. So that, without the consent of the general staffs of those two military arms of the service, the premier may at times be almost unable to name a cabinet. Then in 1913 you remember that the Katsura ministry passed another law which permitted the Minister of War and the Minister of the Navy to take certain steps which they deemed necessary for the national defence without even informing the premier or the cabinet. Those are the two laws which the Japanese liberals—and there are thousands of them and they are growing in number and influence—talked to me about, as being a handicap to Japan's progress along the lines of liberalism.

This California question is a part of our whole relation with Japan that is important, in itself, but not so important as other features of our relations with Japan, namely those relations in the Far East themselves. Japan herself realizes perfectly well that as time goes on the United States will probably bar out the Japanese entirely from immigration here; that there will be abolished the picture-bride agreement and the adopted-son agreement; and Japan, as I take it, does not object: she bars Chinese labor from her own shores. But she wants us to study the question with her, to sit down with her and to arrive at a basis of agreement with her without slapping her in the face. That is the one important point about our relations with Japan today. We have not as yet, with all due respect for our fellow countrymen in the far west, learned to deal with the most gracious and the most courtly nation in the world—the Japanese; we have not learned to treat them politely.

While we are right on that point, I know that some of our people have been aghast when they have read in the papers that in Japan fifty per cent of the public revenue is devoted to the military and to the naval forces of that country. Yet remember that is following a great war, and we have nothing to say when we note that of our own estimated revenue this year for the federal Treasury at Washington, if we include the service upon our war debt and also pensions, eighty per cent of our total federal revenue is devoted to war purposes. In other words, when we read these statements about Japan that are rather startling in their way, we must take them with a grain of salt and compare them with the situation existing in our own country today. Then when we realize that the situation with us is abnormal, perhaps we shall realize that the situation over there in Japan is also somewhat abnormal. But in any event my plea for Japan is to study her situation with a calm and dispassionate mind and without the rancor that might possibly lead to real trouble.

Next, take Siberia. That indeed is a region that it will repay our American manufacturers to study and to cultivate. To be sure, at the present time it is under the sway of the soviet government. But in Siberia sovietism is not of the red type that it has been in Moscow; but is a sober, rather restrained movement. Today it would appear perfectly possible for Americans to trade safely in Siberia.

We all know of John F. Stevens, the eminent American railway engineer. We know the fine piece of war work he accomplished in Siberia and along the line of the Chinese Eastern Railway, a work conducted with altruistic motive for the essential benefit of the people of Russia and of the Allies. I met him at Mukden in Manchuria on my way out of China last May. What he said to me was this:

Mr. Lamont, I have come down from Harbin, a journey of 700 miles here and return, just to spend an hour with you and give you a message to the business men of the United States. That message is that they must never rest content until in Siberia the door of opportunity is surely kept open, so as to give free and equal trade opportunity to America and to all the other nations; so as to assist in the development of that wonderful region.

He, who had been working in that region steadily for three years, described to me in sober, restrained language its great

resources as an agricultural, a timber and a mining region. "Siberia," he said, "is one of the grand granaries of the world." It has for export great quantities of wheat; hundreds of carloads of hides were waiting means for export, Stevens said. The forests are of immense variety and value. With exportable products that can be made available on such a grand scale, it is manifest that, in order to produce those commodities, the very things that Siberia requires are best made in America—harvesting machinery, mowers, reapers, tractors—and then more tractors.

And last we come to China. That, of course, offers the greatest single opportunity for American trade in the Far East. There, we have a chance of doing business, not with the fifty-seven million people which form Japan's population, or the thirteen million that make up Siberia's, but with four hundred million. Our total trade with China ten years ago was a trifle over \$55,000,000. Last year it was over \$371,000,000, but even with that growth of China's total trade the United States had only 16½ per cent of it. Here is ample room for growth. I want to repeat here what I said a short time ago to a meeting of American export organizations:

I never imagined—until I went out there—a region calling for the products of American industry so strongly as China will call in the next twenty years. A great system of railways must be built over there, and its inception should not be long delayed. Those railways will require a fair share of American steel, of American bridges, American equipment. The country calls for electrical equipment—for all the multitudinous forms of farming implements required in that intensely agricultural land, now cultivated with the rude implements of the long ago. China will demand cotton-mill machinery on a great scale, and machine-making tools. Then it will require quantities of mining machinery both for the baser and the precious metals. Finally, those four hundred millions of kindly, honest and highly intelligent people will require, on a prodigious scale, the many domestic appurtenances that American ingenuity has evolved.

There is no reason why our proportion of China's trade should not be doubled and trebled, especially if you consider the fact that the Chinese people as a whole are most anxious to deal with America. The life of the Chinese has been marked for thousands of years by intense industry, by frugality, by intelligence and by love of peace. Now, as to material development, they are awakening from the slumber of ages, and are

coming into their own. Now national feeling is arising; there is developing day by day national pride in Chinese achievement. Now, despite a central government lacking in organization and strength, the Chinese people are marching day by day to greater steadiness, orderliness and prosperity. They have enormous dynamic force. When we consider how, until nine years ago, they were ruled under an absolute monarchy; when we consider how archaic were their conditions of government, then, indeed, we must be amazed, not because their present government is imperfect, but because the new republic has advanced as far as it has in stability and in administration. We read of disorganized conditions in China, and yet when we are there we feel that it is the safest place in the world. In Peking an American woman can take a rickshaw and jog through the native city, long after midnight, unescorted, alone and yet unafraid. I should feel her much safer there than on the east side of New York City.

But China has great material handicaps. What are the chief ones? First, last and all the time, her lack of communications. China, larger than the United States, has less than seven thousand miles of railways to our 250,000 miles. Last year in the City of Hankow, sometimes called the Chicago of China, wheat sold at \$2.00 a bushel, but in Szechuan Province, a few hundred miles to the west, it could be had for 10c. a bushel. The enormous differential was one due almost wholly to lack of transport. That same lack is in a considerable measure responsible for the terrible famine today existing in certain populous provinces of China. When the crops in those regions fail, there is no way of transporting swiftly and in quantity grain for the succor of the starving people. Another factor bringing about these periodical famines is the lack of forests, which means alternating freshets and droughts, lack of proper irrigation and frequent crop failures. China, more than any other country in the world, needs a system of reforestation to build up her water sheds, to restore her water courses and bring back to full productivity at all times that wonderful soil.

Due to the great need of assisting China in the development of her public enterprises, such as the building of railways and currency reform, the international consortium was organized. Banking groups in the United States, Great Britain, France



and Japan were formed at the request of their respective governments; the principle of their organization being to render upon fair and equitable terms genuine assistance to China. The organization of this consortium in the four countries named has of course been attended with many delays and handicaps. It was for the purpose of overcoming some of these that I visited the Far East last winter. The Japanese banking group had, under the instructions of its government, filed reservations holding out from the consortium partnership, certain portions of the provinces of Manchuria and Mongolia. These reservations, of course, were not agreeable to the other banking groups. We felt that, in a partnership that was based on a free and full interchange, it would not be fair for any one partner to reserve certain regions to itself. What was of even more consequence, the American, British and French governments could not consent to this claim that was set up by the Japanese government. The attitude that our State Department, and that the British and French Foreign Offices took, was that any claim like that, if allowed to rest, was tantamount to the granting of special privilege in Asia for some one country and it could not be tolerated. So after long diplomatic exchange, which resulted in no wise favorably, I was asked to go to the Far East and to sit down with the Japanese and try to explain the situation to them; endeavor to arrange it so that they would come into this consortium for the assistance of China and upon the same basis as the rest of us.

It was a long and intricate negotiation, and its difficulty was in part due to this very cleavage that I have spoken of that exists in the body politic in Japan itself. It was a most interesting negotiation, and we finally won out, because the Americans and the British and the French stood so closely together. We never could have succeeded in that negotiation if the three governments had not stood together. They did not stand together in opposing Japan; they stood together in trying to make Japan understand the exact situation, in trying to make clear to Japan that we were not for instance aiming to set up any advantages in Manchuria and Mongolia for ourselves. In that endeavor we finally succeeded so that now with the consortium finally organized, we have a partnership existing among the groups of America and France and Great Britain



and Japan, and we believe that Japan will play that partnership in the same good faith that the others play it. You will find plenty of people both here and in China saying to us that the Japanese will not play fair. Up to date the Japanese *have* played fair and we believe that they *will* play fair.

Now the consortium has been finally organized and is ready to offer its aid to China in her development. It is for China to say whether she welcomes such aid or not. If she fails to do so, we shall have discharged our duty. Despite much misrepresentation, which has been made as to the purpose of the consortium (misrepresentation which has been carried on throughout China), I am confident that the final expression of the Chinese people will be the same as it was made to me when I was there, and that it will ardently welcome the co-operation of the international groups forming the consortium.

If, then, the consortium finally functions, we shall see in the Far East the principle of international cooperation substituted for that of international competition. There will no longer be that international race for privilege and concession which resulted in setting up the baneful spheres of influence in China, but there will be a getting together upon the part of the representatives of the four nations in helping China. Is it too much to hope that in that vast region of the Far East we shall see a little League of Nations, working together to maintain the peace of the Far East and in this way to contribute so much to the maintenance of peace in the whole world?

Is it too much to hope that the American people, to whom the Chinese people look so ardently for counsel, for friendship and for help, shall respond and shall, in the years to come, show a strong and helpful influence in the solution of the Far East problem?

## THE ECONOMIC SITUATION IN FRANCE

HIS EXCELLENCY J. J. JUSSERAND  
The French Ambassador, Washington, D. C.

**I**N most human affairs two elements exert a determining action, namely—facts and sentiment. If you neglect facts, you miscalculate and risk catastrophies; if you neglect sentiment, you risk also catastrophies. Some of the greatest conquerors went to wreck because they forgot that sentiment too is a fact and is a force, an imponderable force, to be sure, but which had the better of them.

We cannot pretend that, at the present time, after the destruction she has suffered, France has already healed all her wounds and regained her normal status and equilibrium; the wounds were too deep, so deep indeed that our enemies were pleased to hope that they were incurable and that, victorious though she was, France would not count in the future as she had in the past. More than two million families that should have been founded but for the war would not exist; the devastation surpassed the present area of the 13 original American states. This part was the richest of France, wont to produce 70 per cent of her cotton cloth, 80 per cent of her woollens, 74 per cent of her coal; for many other articles the numbers are scarcely less telling; authentic ones, all of them being derived from our official statement to the Brussels conference in September last.

For what concerns production and consumption, the swing of the pendulum continues abnormal; after a period when conditions, made worse by the will or, let us hope, only the lack of foresight, of some producers, had resulted in exorbitant prices, a period begins when the fall thereof is so brusque that producers threatened with producing at a loss, begin to dismiss their workmen, who in their turn risk to become helpless; the same producers beseech the consumer, who was getting accustomed to abstain, and had been told he should abstain from motives of thrift, kindly to consume again. Which shows how difficult it is to eat one's hen for dinner and then have her

eggs every morning thereafter for breakfast. Not killed, but hurt, the consumer is just now musing what he should do. France is not, I hear, the only country with a like problem.

This is the present. What of the future? The future, the immediate future, that part of the future which, minute by minute, is becoming before our eyes the present, is quite different; the light of day is in front of us, gloom behind.

First this bleeding, ravaged, heavily laden, victorious nation, France, like yours, has the proper spirit. Thankful for any help that may come from abroad, and much has come from America, causing a gratitude which will never cease, she intends to save herself to the best of her ability, and she will; she has already begun. No bolshevism for her, no fatalism, no fits of despair. She is at work, peasants, laborers, teachers, bourgeois, all that have hands and brains are at work. Land is reclaimed by peasants who first think of rendering the ground fruitful again, and only afterwards of securing shelter for themselves and their families: hence the extraordinary appearance of most of the ravaged regions this summer, plentiful crops in many parts, dotted with villages and hamlets as thoroughly ruined most of them as on the day of the armistice.

Rebuilding is expensive, labor scarce and costly. The problem needs the most earnest attention, for upon its solution, whatever be the personal disposition of the farmer, depends his health, welfare and efficiency; about 600,000 houses have been destroyed, half totally, half partially. Up to now, a number of ravaged localities have been adopted by French, American and English groups or cities; Tilloloy owes its new life to the ever vigilant and benevolent D. A. R.; Vitrimont to the zeal and generosity of Mrs. Crocker; many have been helped owing to the untiring action of Miss Morgan and her friends, and so on. Many English cities have done splendidly. The number of adopted places is 180 which, in itself, seems much; but is not, truth to say, when compared with the total ruin, which affected more than 3,000 cities and villages.

The question has been taken in hand over there in the proper spirit this summer, and sentiment has played its part. The cause of the devastated regions has been entrusted to the children of undevastated France; numerous trains arranged by private initiative have brought 20,000 of them to see with their

eyes what are the suffering and the needs, so that they might tell their parents when they went back. A questionnaire has been sent to the mayors of the devastated districts asking them what were their chief wants, outside of what the government provides or is to provide. They nearly all returned prompt and clear answers, some of them bravely declaring that their people could shift for themselves, and that help should be centered on the less lucky ones. These were allotted to each of the undevastated departments in proportion to the population and resources of the latter. The work has already gone ahead, some cities choosing the simple and honorable means of increasing their taxation so as to help the adopted ones, which was done for example by Lyons, god-mother to Laon and Saint-Quentin.

The idea is to sum up the results on Christmas eve; and at that time of the year, when long ago peace was proclaimed to men of good will, the 20,000 children will let their brethren of the invaded regions know what gift they have to offer them in that season of gifts. Other examples could be added, but this may be sufficient to show what is the sentiment in France.

Now for facts and figures, and I apologize for more figures, they may seem very dry, not so however when you remember the human tragedy and, we hope, victory, they represent.

After the armistice, we began life anew, greatly hampered by our losses, by so many of our peace industries having been transformed into war industries, by our terrible expenses which had totaled 200 billion francs from the first of August, 1914, to November 11, 1918. Our normal expenditure before the war used to figure in our yearly budget for 5 billion; it is now 21½.

Well, beginning with the budget, the result now reached after only two years is that the 21½ billions which include the interest of the debt, are entirely provided for by taxation. New taxes have been voted and are duly paid; the rate which was 129 francs per head before the war is now 574, and if this were a matter for glorying we might take pride on being the heaviest taxed among the great nations. It has been sometimes said even here that we were not taxed enough; let those who may think so go and try.

These sums are as I said duly levied; 3 billion and a half

francs more than last year have been garnered during the first ten months of the present year.

The expenses for reconstruction are, of course, not included in this total; Germany is bound to pay for them but our government cannot wait until she does to rebuild roads, railroads, canals and public edifices, or to advance to industries the necessary capital for setting to work again. Sixteen billions figure in the budget for reconstruction in 1921, and since Germany has not paid up to now, we have to borrow. It is often said that Germany would exert herself better if she knew exactly the total value of the destruction she has caused and which she will have to make good, and that we are to blame if she does not. Given the vastness of the area and the ingenuity of the destruction which neglected nothing from a mine to a well or a fruit-tree, not to speak of castles, churches and cathedrals, it is not a very easy matter to make such a valuation accurately. The treaty has however fixed a delay for it and we shall be ready at the appointed date if not before, which date is next May.

Our effort and expenditure have not in the meantime been in vain. Almost the totality of cultivable ground in the devastated regions has been cleared; half of it was, this summer, under cultivation; most of the railroads, half the ordinary roads have been remade or are at least practicable; 77 per cent of our industrial establishments are at work in whole or in part with 42 per cent of their personnel of former days. The total number of factories in operation was 700 in July, 1919—in July, 1920, it was three thousand. The least favorable account concerns coal mines where the destruction was so complete, and only 60 per cent is as yet under exploitation.

For all that, we have to borrow; our last experiment is a telling one since it seems from early reports that the present loan, the second in one year, will have yielded about 30 billion francs. The rate is 6 per cent, a moderate one, if we remember that Treasury notes in these wealthy and immensely resourceful United States are presently issued at  $5\frac{3}{4}$  and even 6 per cent. This shows, at least, one thing, namely that our people have an unshaken faith in their future, their country, their government. My belief is that they are right.

Speaking of the public debt, I may add that while we were

before the war a creditor nation, with no external debt at all, and we are now a debtor nation, we have not, during the war, played only the part of borrowers, but have helped some of our allies whose needs were overpressing, loaning them a total of 13 billion francs.

A fact of great importance is that the balance of trade, though it has been up to now heavily unfavorable to us, as is natural, when we had so much to purchase owing to destruction, and our means of production were partly cramped, is improving with astonishing rapidity. During the first ten months of last year we exported to all countries, goods amounting to less than 8 billions; during the first ten months of the present year we more than doubled that number, exporting for nearly 19 billions. For the first time in October last this striking result was reached, that the balance of our trade was almost even, we importing for 2.5 billions, and exporting for 2.3 billions.

One of the items worthiest of notice in these, the most recent of our statistics, is food products; we imported almost one billion less than last year and exported almost one billion more. This will surely go on increasing both ways, with the continued reclaiming of the devastated regions and with the wider use, as fertilizers, throughout France, of potash from Alsace, phosphates from Tunis, and after a brief delay from the immense beds of phosphate recently discovered in Morocco. These last will however be in full exploitation only when the railroad to Casablanca and the port in construction there are finished, a matter of two or three years. One of the heaviest items in our purchase from abroad in these latter times will thus gradually disappear.

Under such circumstances, the degree to which exchange is adverse to us is certainly difficult to understand. Exchange like so many other human things depends, as I have already remarked, upon two elements: facts and sentiment. What the facts are, official statistics are here to show. The sentiment in this matter is a question of impression, of trust or distrust, of faith or doubt. I hope my nationality does not totally blind me, but if so then it blinds all my compatriots; we all have faith. And this is not a mere patriotic way of speaking; the present loan shows that we act as we feel. I do not pretend to be a specialist but my impression is that we have not the



rate of exchange we deserve, and I cannot but express the conviction that it will right itself before long.

When I returned from Poland last summer where France had desired to offer such help as she could to a nation who wanted to be free, I crossed our devastated regions as night was falling. We were traversing a ruined village, with the roofs battered in, no windows, no doors; the solitude, gloom and darkness gave the place a deathlike appearance. Suddenly, back of an opening in a half shattered wall, a light appeared, a quiet light, as steady as if nothing had happened. There was life in those ruins. Well, I thought this is emblematic; it is the emblem of France; she may know terrible storms but the lamp at her hearth will ever continue to shine.

Friendly America, who did so splendidly in this war, will, I am confident, feel with me and agree in this wish.

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## AMERICAN TARIFF POLICIES ADAPTED TO THE PRESENT ECONOMIC SITUATION IN RELATION TO FOREIGN TRADE

NICHOLAS LONGWORTH

Congressman from Ohio, Member of Ways and Means Committee  
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WHEN I received the invitation of this distinguished and learned body to speak on the subject of the tariff as applied to present international trade conditions I thought that I was essaying a comparatively easy task. I would have to think back certainly beyond my freshman year at Harvard to recall a time when I have not been thinking or reading or talking to some extent at least about the tariff question. I have been during the last 14 years except for a hiatus of two years a member of the Ways and Means Committee of the House where the tariff is an ever present actuality, certainly of discussion, yet when I composed myself yesterday in an attempt to arrange my thoughts in logical sequence so as to be able to present some concrete views and suggestions on this occasion I found myself close to an *impasse*. Along whatever lines my thoughts strayed in an endeavor to arrive at some brief and definite form of presentment of my conclusions I found myself so to speak "up a stump".

The tariff question has always been a mighty difficult one even in perfectly normal times, one upon which the best minds have differed and in controversy upon which presidential elections have been won and lost, but never before today have there been so many entirely abnormal elements to complicate it.

There are three principal conditions existing which make the solution of the tariff problem infinitely more difficult than ever before. First, the question of its relation to the revenues; second, the question of the immense if not now insuperable difficulty of determining costs of production here and abroad, and third, the question of what consideration ought to be paid to our Allies not only in view of our close relationship with them on account of our cooperation during the war but on account

of the immense amounts of money they owe us, both as payment for the enormous exports we have been sending them and on account of the loans we have advanced to them, now aggregating something like \$10,000,000,000.

First, let me speak of the revenue aspect of the question. When I first came to Congress, and from then on through the Roosevelt and Taft Administrations the receipts from customs were of paramount and vital importance from the revenue standpoint. They constituted at least half and sometimes more of the total revenues of the government. For instance, in the last year of the Roosevelt Administration the receipts from customs were something more than \$300,000,000 out of a total income of something like \$600,000,000. In 1920 the receipts from customs were very slightly more, that is to say, about \$320,000,000, but the total income of the government in that year was nearly \$6,500,000,000. In other words while during the Roosevelt and Taft Administrations the customs furnished about 50 per cent of all the government receipts today they only furnish about 5 per cent.

Notwithstanding the absolute bar, far more effective than any tariff, that the war erected against the importation of certain classes of commodities the total value of imports in the last few years has increased enormously. In 1908 the total value of imports was about \$1,250,000,000. In 1920 \$5,000,000,000. In 1908 45 per cent of all our imports came in free of duty; in 1920 more than 75 per cent. In 1908 the average ad valorem rate on all imports was 22 per cent; in 1920 only about 6 per cent. It would seem obvious under the circumstances that the customs would offer a fruitful field for increased revenue but the trouble is that a tariff law covering all the schedules framed upon a reasonable construction of the protective principle would not yield an additional revenue in my opinion of more than \$350,000,000, which in connection with our present extravagant rate of government expenditure would be relatively only a drop in the bucket. We might of course raise very large sums of money at the custom houses by imposing duties on tea and coffee and other non-competitive articles as Great Britain does but that would be entirely contrary to the protective theory to which the party soon to come into complete power is committed, and which we have received the mandate of the country as I interpret it to put into force.

Short of a general revision of all the tariff schedules it will be in my opinion absolutely impossible to legislate in the direction of increased revenues from the custom houses. Piece-meal revision has proved to be impracticable. The House in the last session sent a number of so-called pop-gun bills to the Senate but the Senate has declined to act, and in my judgment will not act except upon the bill for the conservation of the dye and allied chemical industry which is of vast and vital importance, and the enactment of which I was pleased to observe was one of the few definitely affirmative recommendations contained in the President's message upon the opening of the Congress.

Conceding that no tariff legislation short of a complete general revision can be passed which will in any substantial degree affect the revenue, what are the principal difficulties which confront the Congress in the way of a speedy tariff revision? That brings me to the second phase of the subject, that is to say, the difficulty of determining costs of production. The whole theory of the protective principle rests upon the adjustment of the difference in cost of production as between here and the countries with which we are in competition. Today the commerce of the world is out of joint. In this country even, the one least affected by the cataclysms of the war, certain lines of trade are practically paralyzed. Is it possible under existing conditions to reach an ascertainment of costs of production in this country and costs abroad which would enable us even to approximate the rates of duty which would equalize the difference in these costs? While I concede necessity for the earliest possible revision of the present tariff law which to my mind would bring disaster and destruction to American industry if permitted to continue for any length of time after the complete resumption of international trade I am pretty bearish upon the situation. We intend to take the bull by the horns and to have as complete hearings as possible upon the tariff schedules in the near future and to get all the information possible, but I fear that these hearings are going to develop the fact that we will not have, and no one will be able to give us, information upon which we will in the very near future be able to found any really scientific adjustment of the tariff schedules. I sincerely hope that I am wrong and that during the extra ses-

sion of Congress which I believe will be called almost immediately, we will be able to complete a thorough and scientific revision of the tariff laws, but I am bound to confess that so far as I can now see into the future the prospect is decidedly hazy.

There is one feature of this whole subject that furnishes an additional complication, one so far as I know unprecedented in the history of tariff legislation. Ought we to discriminate in favor of our Allies? Should this discrimination be made either upon the unselfish theory of helping them on the road to financial stability or upon the more selfish theory of making their debts to us more easy of collection? Let us take first the question of our export trade. We used to consider a large balance of trade in our favor a feather in our cap. Today the question is whether it is not to a certain extent perhaps a liability rather than an asset. In the last year before the war our exports of merchandise had risen to about \$2,500,000,000. The imports were about \$1,800,000,000, leaving a balance of trade in our favor of approximately \$700,000,000. In the last year of the war our exports had increased to more than \$6,000,000,000 and our imports to \$3,000,000,000 leaving a balance of trade in our favor of more than \$3,000,000,000. The apparent excess of exports for the years 1918-1919 and the present year up to the last of September is very nearly \$9,000,000,000.

Some of this has been paid for by loans, by credits granted by the Grain Corporation, the War Department and the Shipping Board, by appropriations by Congress for relief to some of the European countries, by loans made by the War Finance Corporation to banks and exporters in this country to assist in financing exports, by shipments of gold and by the sale here of foreign securities and the re-purchase here of American securities formerly held in Europe, but the payment of Europe's enormous indebtedness to us presents grave problems and its liquidation will no doubt extend over a long period of years.

How far ought we to recognize these conditions in the formulation of a tariff policy? The President in his message to Congress a little more than a year ago on December 2, 1919 went to the extent of saying that no tariff bars should be interposed in the way of enabling the debtor nations to settle these

balances by means of exports to this market of their goods. Having stated that Europe can only have three ways of meeting these obligations, by the establishment of new credits, by imports into this country of gold or by imports of goods, he proceeds to eliminate the first two ways as impracticable and impossible under existing conditions and uses this significant sentence:

Anything, therefore, which would tend to prevent foreign countries from settling for our exports by shipments of goods into this country could only have the effect of preventing them from paying for our exports and therefore preventing the exports from being made.

The logical conclusion to be deduced from this statement would be that no tariff bars should be erected against the free importation into this country of goods from debtor nations, in other words that even the present insignificant bars erected by the Underwood law against the free importation of European goods should be removed.

With this conclusion I am entirely unable to agree. The President goes on to say:

The productivity of the country, greatly stimulated by the war, must find an outlet by exports to foreign countries and any measures taken to prevent imports will inevitably curtail exports.

And later on he says:

Whatever, therefore, may have been our views during the period of the growth of American business concerning tariff legislation we must adjust our new economic life to a changed condition growing out of the fact that American business is full grown and that America is the greatest capitalist in the world.

The enactment into law of such a doctrine would in my judgment bring absolute disaster to American business and industry. I concede of course that conditions have changed, but have they changed to such an extent that we ought to abandon all the standards and policies of the past and forgetting our home market to enter into a mad scramble for the world's market? May I suggest the certainty even if that were a wise policy that we would cut a pretty sorry figure in attempting to gain the world's market once we had lost our market here at home. For myself I am willing to go to any reasonable extent to



make the paths of our Allies towards financial and industrial rehabilitation as easy as possible, but I balk at giving them free rein in the American market. I may be old-fashioned but I still cling to the belief that the American market is primarily for the American producer and that unless he can have a firm foothold here any effort to compete for the world's market will come to nought.

Let us look for a moment at this proposition from another point of view, that is to say from the point of view of making it as easy as possible for the Allies to pay their debts to us by the freest possible importation of goods. Would the lowering of the tariff bars to the world enable them to do this? It seems to me that there is a fundamental fallacy in this argument. Would the abandonment of any measures restricting importations into this country nominally in the interest of those of our Allies who are our largest debtors in the end redound so much to their benefit as to the benefit of other countries who owe us nothing? Our principal debtor nations both for exports and credits advanced are Great Britain, France, Italy and Belgium. In all of them the cost of production and the price of labor is relatively high. Is it not obvious that duties low enough to invite large importations from those countries would invite even larger importations from Japan and other low-cost countries? To my mind an invitation to the world to compete with entire freedom in the American market would in fact be accepted by those countries whom we least desire to benefit and would result not so much to the benefit of our late Allies and greatest debtors as to their ultimate discomfiture. If we shall decide that it is a wise policy to give preference to the debtor nations so far as tariffs are concerned it seems to me that there is but one practical way to bring it about and that is through the medium of separate reciprocal trade agreements. I concede that such agreements would be difficult of negotiation but they ought not to be impossible or give rise under the circumstances to international complications. It might be greatly to the benefit of England or France or Italy or Belgium and not greatly to our detriment to obtain certain advantages over other countries in the shipment of certain kinds of goods into our market in return for which it might be greatly to our advantage and not greatly to

their detriment to give advantages to certain American goods in their market.

As to whether or not this would be a wise policy I am not now prepared to say but if we are to discriminate in favor of our Allies as against other nations this seems to me the only practical way to accomplish it.

I reiterate my realization of the fact that conditions have greatly changed as a result of the world war. We have become the leading creditor nation of the world and that together with certain other elements and facts must now be taken into consideration in the formulation of an American tariff policy, but I rigidly adhere to the belief that there is nothing inconsistent in retaining our home market and at the same time occupying a commanding position in the world market. In fact I am unable to see how we can successfully compete with other nations at all unless we retain a commanding position in our market at home.

I am willing to go far in helping toward financial rehabilitation those nations which have suffered far more than we as a result of the war but it must not be at the sacrifice of American industrial independence.

## THE MERCHANT MARINE ACT OF 1920

WESLEY L. JONES

U. S. Senator from Washington, Chairman of Commerce Committee

**T**HE Merchant Marine Act of 1920 is an earnest effort to lay the foundation of a policy that will build up and maintain an adequate American merchant marine in competition with the shipping of the world.

The first section declares that the United States needs for national defence and the proper growth of its commerce a merchant marine of the best type of ships sufficient to carry the major part of its commerce, such vessels to be owned ultimately and operated privately by its citizens. It asserts it to be the policy of the United States to do whatever may be necessary to secure such a merchant marine, and the Shipping Board is directed to keep this purpose and object always in view as the primary end to be attained in the disposition of our ships, in the making of rules and regulations and in the administration of the shipping laws. This expresses the thought, desire, purpose and aim of the American people. This section is the chart to guide and the yardstick to measure every act of the Shipping Board and should be kept in mind in the construction of every provision of the act and in every decision the board may make.

A shipping board of seven commissioners is to be appointed by the President. They are to hold office for six years and to receive a salary of \$12,000 per annum. Their special fitness for the work they are to do is to govern their selection, and all important sections of the country are to be represented. All the ships and other property of the United States acquired by the President during the war except those in the military and naval service of the United States are transferred to the board, to be controlled, used and sold by it to citizens of the United States. While certain principles are laid down to be followed by the board in making sales, it is expressly directed to seek to achieve the declared purposes of the act and to carry out the policy declared in section 1. In the last analysis the

board can dispose of the vessels and property of the United States upon such terms and under such conditions as in its judgment will accomplish this purpose. If the board finds that certain vessels are unnecessary to the promotion and maintenance of an American merchant marine and cannot be sold to citizens of the United States, it may sell such vessels to aliens upon a vote of five of its members. Vast and unusual powers are given to this board. This must be done. The work to be done is as important and difficult as any that confronts the Government, if it is not the most important. The board must have wide discretion and vast power to meet the diverse situations that will confront it. It can make or mar our merchant marine. The success of the Merchant Marine Act depends upon it. Men of the greatest ability, the widest experience, the most unyielding firmness and the most intense Americanism, men moved by the spirit and purpose of the act, must be put upon this board. No richer reward can come to any man than to have a large part in doing the great thing this board is to do.

Section 7 authorizes and directs the board to investigate and determine as promptly as possible what steamship lines should be established and put in operation to promote, develop, expand and maintain our foreign and coastwise trade and provide for an adequate postal service and to sell or charter ships to citizens who will agree to establish and maintain such lines. The board is given a wide discretion in fixing the terms and conditions that will secure this service and if private citizens cannot be secured to supply it the board is directed to operate vessels itself on such lines until business is developed that will lead to a satisfactory arrangement by private parties to carry them on or it shall appear that such lines cannot be made self-sustaining. To aid in this the Postmaster General is authorized to contract for the carrying of mails over such lines at such price as may be agreed upon by himself and the board. To encourage the establishment of lines from various ports preference in the sale of vessels for these purposes must be given to citizens who have the support of the domestic communities primarily interested in such lines if the board is satisfied of the ability of such persons to maintain the service desired. This is a section of far-reaching importance and, if

wisely administered, should go a long way toward developing a merchant marine upon a stable basis and lead to a great and permanent expansion of our commerce and the creation of banking facilities and commercial agencies now so much needed. If our business men are assured of certain, regular and permanent transportation facilities between ports and markets they will establish the necessary banking facilities and commercial agencies.

The board is authorized to create, maintain and administer a separate insurance fund which may be used to insure, in whole or in part, vessels and plants owned by the board against all hazards commonly covered by insurance policies in such cases.

During a period of five years, the board may set aside annually out of the revenues from sales and operations the sum of \$25,000,000 to be known as a construction loan fund. This fund is to be used in aid of the construction of vessels of the best and most efficient type for the establishment and maintenance of service upon steamship lines deemed necessary by the board. Aid may be given up to two-thirds of the cost of the vessel to be constructed, ample security being required by the board to insure repayment of the sum advanced. While we have a large tonnage built under the needs of war, our shipping is sadly lacking in up-to-date combination freight and passenger ships. We must have such ships to compete with our rivals. They are especially needed in the South American and Oriental trades. Under this provision it is hoped that the building of such vessels will be encouraged and a well-balanced fleet secured.

During the war great docks, piers, warehouses and terminal equipment and facilities were constructed or acquired at various ports by the United States. These facilities ought to be a great aid in the development and operation of a merchant marine. The agency whose special responsibility it is to build up such merchant marine was deemed the best agency to have control of these facilities and they are to go into the possession and control of the Shipping Board on January 1, 1921, ample provision being made, however, to take care of any emergency needs of the War or the Navy Department. Preference in the use of these facilities should always be given to American ships.

No vessel purchased from the board or documented under the laws of the United States can be sold, transferred or mortgaged to an alien without the approval of the board being first obtained, and any vessel chartered, sold, transferred or mortgaged to an alien without the consent of the board shall be forfeited to the United States and those violating this provision are subject to fine or imprisonment. The purpose of this is obvious.

Section 19 is one of far-reaching consequence. The more one knows of the handicaps put upon our shipping by foreign rules and regulations and by the diverse and conflicting rules and regulations of our own departments, the more important this section appears. It not only authorizes the board to make rules and regulations necessary to carrying out the provisions of the act but it also authorizes the board to make rules and regulations affecting shipping in the foreign trade not in conflict with law in order to meet general or special conditions that may be unfavorable to our trade which arise out of foreign laws, rules or regulations, or from competitive methods or practices employed by owners, operators, agents or masters of vessels of a foreign country. This will enable the Shipping Board to meet promptly orders in council and other similar acts of other countries which have heretofore been used to the great disadvantage of our shipping. In order to secure uniform rules and regulations upon the part of the various departments affecting shipping, the board may request the suspension, modification or annulment of rules or regulations made by any such department, or it may request the making of new rules or regulations; and it is also provided that no rule or regulation shall hereafter be made until the same has been submitted to the board for its approval. In case of a disagreement between the board and any department as to these rules or regulations such disagreement is submitted to the President and his decision is final. This, if properly and firmly carried out, will result in uniform rules and regulations affecting our shipping that cannot help but be of great benefit, and it will also prevent the making of any rule or regulation until its effect upon our shipping is duly considered.

Section 20 is intended to place in the Shipping Board and the Secretary of Commerce ample power to prevent unfair



methods and unjust discriminations upon the part of foreign shipping against our shipping and our commerce and provides that if the board determines that any person has violated any of the provisions of section 20 and is a party to combinations, agreements or understandings prohibited and will certify this fact to the Secretary of Commerce, the Secretary shall refuse the right of entry to any ship owned by such person or by any carrier directly or indirectly controlled by him into any port of the United States until the board certifies that such violation has ceased or that such combination, agreement or understanding has been terminated. If our carriers give rebates we can punish them. If our foreign competitors give rebates we cannot do so. If our carriers cannot give rebates and their competitors can ours must fail. Any means we can adopt to put us on an equality should be applied. This section will do it. It is solely in the interest of fairplay and just treatment to us and should be used firmly.

Under section 21 the coastwise laws of the United States are extended to our island territories and possessions after February 1, 1922, if adequate steamship service at reasonable rates to accommodate the commerce and passenger travel has been established, and the board is directed to establish and maintain such service until it can be taken over and operated by private capital and enterprise. To insure that none of these possessions will be without adequate service the President is authorized to extend the period within which such coastwise laws are to be extended for such time as may be necessary for the establishment of adequate shipping facilities. The trade of some of our island possessions is over a hundred million dollars a year. It has been largely carried in foreign ships. It ought to be carried in American ships and offers an opportunity not only to put under the American flag more ships but ships of the highest type and most desirable for ocean commerce. The carrying of that trade should be ours. We can have it if we will. If we do not take it no one is to blame but us. With the assurance given private enterprise should prepare to handle this trade.

Section 23 gives special encouragement to the building of new and up-to-date ships. It exempts, for a period of ten years, the owners of vessels documented under the laws of the

United States and operated in the foreign trade from income, war-profits and excess-profits taxes if such taxpayer either invests or sets aside in a trust fund for investment an equivalent amount to be used in the building of vessels of the type and kind approved by the Shipping Board, with a provision that at least two-thirds of the cost of such vessel so constructed shall be paid for out of the private funds or capital of the person having such vessel constructed. It is also provided in this section that any person who may sell a vessel documented under the laws of the United States and built prior to January 1, 1914, shall be exempt from these taxes if the entire proceeds of such sale shall be invested in the building of new ships of a type to be approved by the Board. Our merchant marine needs fast passenger and fast combination freight and passenger ships very badly. It is hoped this provision will be an aid in securing them. I understand that over 300,000 tons have been contracted for under this provision already—mostly, however, tankers, which are greatly needed.

Section 24 requires all United States mails carried on vessels to be carried on American-built vessels if practicable. The Board and the Postmaster General shall determine from time to time the just and reasonable rate of compensation to be paid for a satisfactory postal service and the Postmaster General is authorized to enter into contracts within the limits of appropriations therefor made by Congress to pay for the carrying of such mails in such vessels. We have been paying about \$3,000,000 a year for the carrying of our mails on ships and of this sum about two and a half millions has been paid to foreign ships, thereby practically subsidizing them to that extent. By proper cooperation between the Shipping Board and the Postmaster General this provision can be of great aid in developing and maintaining regular shipping lines.

In the hope of developing an organization in this country similar to Lloyds, Section 25 requires that all vessels owned by the United States shall be classified by the American Bureau of Shipping so long as that bureau is maintained as an organization without capital stock and pays no dividends. The Secretary of Commerce and the chairman of the Shipping Board shall each appoint a representative to represent the Government upon the executive committee of the American Bureau of Ship-

ping, who shall serve without compensation. Lloyds has been a great factor in building up the British marine. We hope to make the American Bureau of equal help to our marine.

Much objection has been made to Section 28. A large part of this criticism, though honestly made by our people, I am convinced has its origin in alien interests. Under the Railroad Transportation Act the Interstate Commerce Commission may allow preferential rates over American railroads on imports or exports. These preferential rates under that act apply to imports or exports whether carried in alien ships or American ships. The Shipping Board investigated the matter carefully and came to the conclusion that such preferential rates should not be applied to imports and exports carried in alien ships if American ships were available, and the sole purpose and effect of Section 28 is to provide that if American shipping is available then preferential freight rates shall not be given to imports or exports carried over American railroads unless such exports or imports are carried in American ships. The wise application of this provision rests solely with the Shipping Board and the Interstate Commerce Commission. The power given them can be made of tremendous benefit to American shipping and American commerce, and the people of the country and of the various ports should feel that this power will be used in their interests and not to their injury.

Under Section 29 encouragement is given to the development of American marine insurance companies or organizations by exempting such associations from the operation of the anti-trust law. American capital does only about ten per centum of our hull insurance and only about thirty per centum of our other marine insurance. Every possible encouragement should be given to it to do our own insurance. If it won't do it the Government very likely will do it. American insurance is almost if not essential to a permanent marine.

Section 30 is a very complicated section, but the purpose and object of it are to encourage the investment of American capital in ships and shipping securities. It gives such investments a security not heretofore enjoyed and makes a mortgage upon a ship a prior lien except as to certain specified claims.

Considerable discussion has arisen with reference to Section 34, which directs the President to give notice of the abrogation

of the provisions of certain commercial treaties. The purpose of this section is to terminate in an orderly, courteous and diplomatic way treaties which are detrimental to our interests and which prevent us from doing what we think ought to be done to encourage and build up our American merchant marine. We could pass such legislation if we desire and abrogate these treaties in this way. This is not the proper and courteous way to deal with such matters. No complaint by foreign countries can be made against the method provided in this act. We are seeking to do only what other countries are doing. France has already notified us of her intention to terminate her commercial treaty with us, and she has given a similar notice to Great Britain, Canada, Spain, Greece and other countries. Spain, Italy, Norway, Greece, Sweden, Bulgaria, Great Britain and other countries are getting rid of treaties that may hamper them in the contest for the world's trade. It will be little short of criminal if we do not free ourselves from those things that shackle us and prevent us from doing what we know is for our best interests. These other countries are looking after their own interests. If we do not look after ours, no one else will.

Wherever possible alien interests are hiring the best American legal talent, buying the highest American writing ability, controlling the most powerful American papers, journals and magazines and cajoling or coercing American officials to serve their end. Their paid agents will be found in meetings like this to point out dangers and difficulties. They will present to public officials cogent reasons why it will be unwise to take this course or follow that policy. Business men will be threatened by their business connections and communities will be intimidated by threatened withdrawal of transportation facilities. Professors in our colleges and theorists in our army and navy will be encouraged to urge that those who seem to be especially fitted or trained to do the ocean-carriage should be allowed to do it without competition.

They will overlook the terrible experience that came to us at the beginning of the world war as the result of such a policy. Our shipping could be done more cheaply by others, and so we had none. When the war came this lack of shipping cost us hundreds of millions of dollars in higher freight rates

or business losses and hundreds of millions of waste in the hasty building of ships to meet the emergency that threatened the overthrow of civilization, and today the papers are filled with stories of waste, corruption and inefficiency that was the inevitable result of the conditions and the situation that confronted us.

The man or the paper who would discourage the upbuilding of our merchant marine is fighting the battle of alien interests. We have the brains; we have the ability; we have the energy, and we have the means to build up an American merchant marine. We have the need to stimulate us to do it, and if every true American citizen will determine to do his part to this end and not allow us to be diverted by fear, threats or cajolery from that great purpose we will succeed.

If the American people want an American marine they must be willing to work and sacrifice for it. Support must be given to those who seek to built it up. Counsel must be taken of courage and not of fear. Our competitors will deceive us, scare us, bluff us or destroy us if they can. "Fairplay", the great shipping organ, of London, said frankly a short time ago:

When it has been a question of the survival of the fittest we have invariably done our level best to crush or mold opposition, and, as regards America's new mercantile marine, we shall go on doing it and expect her to do the same by us.

We do not seek to crush Britain's marine, but we do desire to build up a merchant marine ample to do the major part of our own ocean-carriage and that part of the world's carrying commensurate with our wealth, power and standing among the nations of the world. This is necessary for our commercial growth, our national defence and national independence, and it is necessary for the world's peace and safety. If one nation dominates the shipping of the world it holds the destinies of all peoples in its grasp.

I had something to do with the drafting of our merchant marine act. I know the spirit that moved those who wrote it. Partisanship had no place in its consideration. We acted as Americans and not as partisans. Every word, every line, every paragraph and every section was written solely in the interest of the United States. We seek to assure our people

equal treatment, square dealing and a fair chance in the world's carrying business. With this they can hold their own with any ships. There may be provisions in the act that ought not to be there. Experience will show them and they will be removed. There are many things that should be added and I hope this will be done. Destructive criticism alone will encourage and aid our competitors. Constructive criticism will help us. If every American will place the nation's good above individual welfare; think, talk and act Americanism and give whole-hearted support to the law passed to aid the United States and uphold those who administer it solely in the interest of the United States and its citizens, we will have an adequate merchant marine that will secure our own interests and promote the world's welfare.

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## INTERNATIONAL ASPECTS OF AMERICAN MARITIME POLICIES

RAYMOND B. STEVENS

Former Vice President of the U. S. Shipping Board

**T**HE war caused a great change in shipping. Germany has lost all her ships suitable for overseas trade and must build ships for the Allies for some years to come. The countries engaged in the war and many neutrals lost a substantial part of their tonnage. The position of the United States before the war in overseas shipping was negligible. We carried less than ten per cent of our own import and export trade. As a result of war building the United States now has a fleet of vessels equal to one-fourth of the world's tonnage and able to carry over sixty per cent of our foreign commerce. Our fleet is second only to that of Great Britain. Of course, we have not a merchant marine in the sense that Great Britain and the other maritime countries have a merchant marine. The great majority of our ships are still owned by the government although operated by private companies.

The policy concerning this war-built fleet adopted by Congress is clearly set forth in the preamble to the Merchant Marine Act of 1920:

It is necessary for the national defense and for the proper growth of our foreign and domestic commerce that the United States have a merchant marine with the best equipped and most suitable types of vessels to carry the greater portion of its commerce ultimately to be owned and operated privately by citizens of the United States, and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine.

What will be the effect of such policy on our international relations? That depends entirely upon the methods adopted by Congress to develop and encourage the maintenance of a private merchant marine. Successful competition based on efficiency and equal opportunity will have no serious results upon our international relations, although naturally the other maritime nations will not like it. If, however, we adopt a

policy of encouraging American shipping by discriminations against other ships, we will rouse ill-will, resentment and in the end retaliation. Apparently this is the exact policy which we are tending toward. Among the various methods proposed are the use of the Panama Canal free of tolls by all American ships, a reduction in the customs dues on commodities imported in American ships, lower rail rates on articles imported or exported in American ships, lower tonnage dues than those imposed on foreign ships and the development exclusively for the use of the American ships of the public oil lands.

There is nothing new about these forms of discriminations. They are almost as old as ships themselves. Every form of discrimination that human ingenuity could invent has been tried in the past. For centuries discriminations were the rule rather than the exception. The whole tendency of recent years has been against such discrimination. We have treaties with practically all the commercial countries of the globe providing for reciprocity and equal treatment for ships. This tendency and these treaties are not the result of a soft idealism, but the result of years of hard practical selfish experience. Invariably discriminations led to international ill-will and retaliation and in the long run were ineffective as aids to national shipping. When they become general their benefits largely disappear and all that remains are their burdens and evil consequences.

To one familiar with the past history of shipping and navigation laws, it is almost inconceivable that the United States should now abrogate its treaties providing for equal treatment and engage in a wholesale campaign of discriminations. What are the reasons for this change in policy?

There is a general belief among shipping men and also the public that some form of government aid is necessary to enable American ships to compete with foreign ships. For years attempts have been made to subsidize in various ways American shipping. The opposition to direct subsidies has been so strong that the shipping interests have turned now to these indirect forms of aid. The opposition of the public is not as great because these methods seem to cost the public nothing, which is, of course, fallacious.

Does American shipping need government aid in order to compete with other countries, and if so, what form should that aid take? It is true that before the war American capital did not go into shipping because the returns were not attractive enough. Ships cost much more to build in the United States and were more costly to operate, but the war has not only brought changes in the amount of tonnage owned by the various countries but has brought a great change in building and operating cost. Today we can build ships in the United States practically as cheap as they can be built in Great Britain, and labor costs and operation are nearer equal than they have ever been before. It is true that American ships, especially the smaller vessels, carry larger crews and wages are somewhat higher, but labor cost is a very small factor in ship operation. It runs from 6 to 12 per cent of the operating cost depending on the type of vessel. For oil-burning cargo carriers of which our fleet is largely made up, the total labor cost is not more than seven or eight per cent. Insurance is more, depreciation is more, fuel is more. The importance of the higher wage has always been greatly over-emphasized.

Our foreign trade is developing in ways that make it more advantageous to have transportation under our own control. In addition to all these reasons Germany which was formerly second in ocean transportation has been eliminated for some years as an important competitor. It does not seem at all improbable that the United States when it has developed the necessary personnel can compete successfully in ocean transportation. The one thing we are lacking today is trained personnel. Profit in ship operation depends upon keeping the ship at work, quick despatch and the securing of full cargoes both out and in. In no industry is training and experience of more vital importance than in shipping. It requires trained officers and trained engineers and trained crews to operate ships safely and keep them in good condition. Repairs are not only costly but the delays are costlier still, as practically all the operating costs continue while a ship is laid up for repairs, or awaiting cargo. Successful shipping also requires skill and an experienced organization on land in not only the home ports, but in all the foreign ports of the world to which the ship may go. It takes time to build up such a personnel.

I realize that there is a difference of opinion on this question of successful competition. Many men of long experience believe that we cannot operate as cheaply as foreign ships and that either permanently or for some considerable period of time the government's aid will be required to enable American shipping to make a profit. Assuming that this is true, under no circumstances should we give that aid through discriminations. Their effect on international relations will be serious. This is not an opinion. This is a statement of history. Moreover they are unsound from a domestic point of view. The burdens are hidden and the benefits are conferred without choice or judgment. Moreover, applied to as large an amount of tonnage as we now own, they are sure, if at all effective in aiding American shipping, to be followed by retaliation by other nations and general discrimination against our own ships. Men seem to forget that foreign commerce and overseas shipping is not merely a national matter, but an international matter. All our imports are some other country's exports, and all our exports are some other country's imports. For once sound international policy and sound domestic policy are in accord.

The policy the United States should pursue is to grant and insist upon receiving equal treatment for all ships, and if any aid be given by the government to shipping it should be in the form of a direct subsidy or grant.

The public will then know what it costs and who gets it.

I am not discussing theories alone. A great and immediate danger exists. In fact, Congress has already acted. The Merchant Marine Act passed last June provides first for extending the coastwise laws to the Philippine Islands and all our territories and insular possessions. This is clearly a perversion of the coastwise principle. Section 34 provides that in the opinion of Congress articles or provisions in treaties or covenants to which the United States is a party which restrict the right of the United States to impose discriminating customs duties on imports entering the United States in foreign vessels and in vessels of the United States and which also restrict the right of the United States to impose discriminatory tonnage dues on foreign vessels and on vessels entering the United States, should be terminated and the President was di-

rected within 90 days to serve notice on all countries with which we had such treaties that the portions thereof containing these restrictions were abrogated. President Wilson has refused to give such notice. It is confidentially stated in the Republican papers that Senator Harding will carry out the instructions of Congress. The abrogation of these treaties would not only make it possible to apply discriminatory duties and discriminatory tonnage dues, but would make immediately effective a provision in the Underwood Tariff Bill granting five per cent reduction in the duties on all commodities imported in American ships. This provision was declared inoperative by the Supreme Court, because of the proviso that nothing in the provision should be construed to abrogate or affect any treaty between the United States and any other country. The provision has never been repealed and the abrogation of these treaties automatically makes it effective. Moreover, the Merchant Marine Act permits lower rail rates on goods imported into or exported from the United States if carried in American ships.

This complete change of our past policy is being adopted without any general discussion or understanding by the public as to the nature of such legislation or the consequences most certain to flow from it. So far those interests in favor of building up American shipping by such means have had the field to themselves. The press has been full of propaganda emphasizing the importance to the nation of a merchant marine and the need of some government aid. Shipping interests feel that this is the psychological time to secure legislation. The public has been aroused by the war to the importance of shipping. After five or six profitable years we are now entering a period of severe competition, because the excessive building of ships in the world has caught up with the demand for transportation.

It is the duty of men of influence in business and in politics to arouse public interest in these problems and to point out the dangers of the course we are entering upon. The whole history of the past proves that these methods will not be effective and the only certain result will be international ill-will, resentment and economic warfare.



## THE OPERATING PROBLEMS OF THE AMERICAN MERCHANT MARINE

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THE tonnage of the world, notwithstanding the losses by submarines, is larger today than it was in 1914. In that year it was about 49,000,000 gross tons, and today it is over 57,000,000.

Our own seagoing tonnage in 1914 was about 2,000,000 gross tons; today it is over 12,000,000. Of this tonnage something over 6,000,000 tons gross register, equivalent, roughly speaking, to 10,000,000 tons deadweight carrying capacity, in units of 5,000 tons or more, are serviceable for the foreign trades. By foreign trades I mean the longer voyage trades, across the Atlantic, across the Pacific, and to South America.

I purpose to deal only with general cargo steamers, eliminating tank vessels built for the carriage of fuel in bulk, and passenger steamers, the operation of which presents quite different problems.

The title to the general cargo tonnage is still in the United States. Most, if not all of it, has been operated in foreign trades, in the hands of private operators, under the direction and for account of the Shipping Board.

It is the declared policy of Congress, in the Merchant Marine Act, 1920, that this tonnage shall be sold to citizens and transferred into private hands. It is the hope of the country that this may be accomplished on such terms and in such a manner that the ships can be profitably operated by private ship-owners, and may form the nucleus of a larger and better balanced American merchant marine, suitable to the needs and to the dignity of the country. The operating problems of private ship-owners who are expected to buy and operate this fleet are those that I intend to discuss.

The essential condition of any successful operation of American merchant vessels in the foreign trade, by private



initiative, is equality of opportunity with our principal foreign competitors. Our shipowners must be practically on all fours with their competitors in order to make a profit. If they cannot make a profit the accumulated savings of our people will not seek investment in the industry, and without this the establishment of an American merchant marine in private hands cannot be accomplished.

The three fundamental matters involved in equality of opportunity in competition are: (1) the first cost of ships bought by our citizens must reasonably approximate the costs of their competitors in order that capital charges may be substantially equalized with those of the competitors; (2) operating costs must be, or must be made, approximately equal to those of our competitors; and (3) privately owned ships must be free from competition by tonnage owned by the government.

1. I place the condition of equality of capital costs ahead of all others because the annual capital charges, which run throughout the life of the ship, constitute the main factor in determining whether it can or cannot be operated successfully.

Capital charges based on the prices now asked by the Shipping Board are altogether prohibitive. They would be far greater, in comparison with the similar charges of their competitors, than the difference in the cost of operation under our flag and the flags of such competitors.

The annual capital charges, payable from earnings, are insurance and depreciation, to which I add 6 per cent interest upon the investment.

Insurance is a necessary charge, universally paid for in premiums, or paid from an insurance fund created by a charge on earnings equivalent to such premiums. The hazard of loss of the investment by marine perils or fire is constant, and no prudent ship-owner can remain uninsured. Depreciation is usually charged at 5 per cent per annum on the cost of the ship, on the theory that its useful life is limited to approximately twenty years. The amount is taken from earnings and placed in a sinking fund for replacement. Interest upon the investment must be considered, since the expectation of a reasonable return upon capital is a necessary inducement to investment.

The price asked by the Shipping Board for a vessel of this class, contracted for during the war, is \$175 a deadweight ton. Great Britain, immediately after the armistice, sold to its citizens the ships of similar type and class which it had built during the war, for £23, or approximately \$100 a ton. Scandinavian ship-owners have recently offered in our market ships contracted for during the war at prices of much less than \$100 a ton, without finding buyers.

A comparison of the capital charges on a typical steamer of 8,800 tons, deadweight-cargo capacity, purchased by a citizen at the Shipping Board price of \$175 a deadweight ton, and those on a similar ship bought by a foreign subject at \$100 a ton, shows the following result:

	<i>American ship</i>	<i>Foreign ship</i>
Cost price .....	\$1,540,000	\$880,000
Capital charges:		
Insurance at 4% .....	61,600	35,200
Depreciation at 5% .....	77,000	44,000
Interest at 6% .....	92,400	52,800
Total .....	\$231,000	\$132,000
Excess of capital charges on the American ship .....	\$99,000 per annum.	

The excess of capital charges on American ships is probably greater than this when compared with the similar charges on a great part of the tonnage of our competitors. The amount of similar foreign tonnage built at pre-war prices and now in active competition is more than twice the quantity that our government has to sell. The original cost of this competing tonnage is far less than \$100 a deadweight ton (probably not more than from \$40 to \$75 a ton), and its average capital value, for the purpose of computing annual capital charges, is carried at less than that amount.

The comparison, even on the basis that I have taken, means that in order to earn a clear 6 per cent return on the investment, an American ship of this class and size would have to earn approximately \$100,000 per annum more than a similar foreign ship operated by a competitor; that an American owner of an average fleet of ten such ships would have to earn approximately \$1,000,000 per annum more than a foreign

competitor operating the same number of ships; and that the whole amount of the 10,000,000 deadweight of American tonnage that I am considering as available for service in the foreign trade would have to earn more than \$100,000,000 per annum in excess of the earnings of a similar amount of foreign tonnage operated by competitors.

The bare statement of this startling situation demonstrates the need of reducing the capital investments of American ship-owners to the lowest possible figure bearing a reasonable approximation to the market value of tonnage, and indicates the futility of the governmental policy of holding out for such excessive prices. No greater disservice could be done to the development of a privately owned American merchant marine than to sell the government tonnage to private owners at prices which cannot be successfully worked out in the operation of the ships in foreign trade, nor can any greater discouragement to the investment of capital be found than is embraced in such a policy.

In these circumstances we may well give heed to the British view of our mistaken policy, as expressed in a recent issue of their leading shipping review ("*Fairplay*", November 18, 1920):

The opinion that ship-owners have held in this country from the start—not from their own point of view, but in the interest of American shipping, in which regard they have been endorsed to my personal knowledge by many prominent American ship-owners—is that, if it is the Board's desire to encourage American investors and capable business men to go into shipping, it must dispose at less than the world's price of the vessels it owns, and write the difference off as a war loss. But what has the Board done? It has sold boats wherever possible at a figure at least 100 per cent more than that for which they would be purchased in this country, and has encouraged buyers to take them over on the piano system. And the inevitable result is that it has been found impossible to provide for the installments out of earnings—and bankruptcy will follow in due course. Is this encouraging investors? . . . To suggest that, at the rates now quoted, an American steamer is worth the Board's price is rather pathetically laughable.

For the period of a year or more after the armistice the market for ships, at reasonable prices, was strong, and money conditions were favorable for the financing of new enterprises. A large amount of the tonnage would probably have been disposed of at that time if sound business policies had been followed.

The unfortunate result of holding out for prices 100 per cent above the market has been that only a negligible quantity of the ships has been sold. Few of the old established companies felt that it was prudent to buy ships at such prices. A number of the new companies which contracted to buy, on the installment plan, have had to turn the ships back to the government, and others have passed into receiverships. Meanwhile the market value of tonnage throughout the world has fallen at least \$25 a deadweight ton and probably more, and money conditions have changed so that new financing is impracticable. Whatever the value of the tonnage may have been a year ago, its value now is at least \$250,000,000 less, and the ships remain unsold. That the loss will eventually amount to much more than this, when the ships are sold at prices that can be obtained for them in the future, is a reasonably safe prediction.

2. The principal handicap in operating costs under the American flag at present is in the wages of the personnel.

Wages for officers and men on the typical American steamer of 8,800 tons deadweight, used in the previous comparison, amount, at the present standard of wages, to \$5,315 a month. The wages of an identical British steamer amount to \$3,924 a month. The excess cost to the American vessel is \$1,391 a month, or \$16,692 a year. On an average fleet of ten steamers this excess in wages is \$166,920 a year; and on the steamers aggregating 10,000,000 tons, that I am considering as available for foreign trades, it would amount to approximately \$20,000,000.

Further disadvantages in the cost of operation result from less efficiency in a part of the personnel available for employment on American ships. Inefficiency in this respect means larger costs for repairs and failure to obtain the greatest possible earnings from operation. While the cost of these unfavorable factors cannot be readily computed, it is substantial and must be taken into account.

Our laws require that licensed officers and engineers must be citizens. Proper training for work of this kind is obtained in two ways—by long experience at sea, and by scientific intensive training for short periods. As the opportunities for training by experience have heretofore been slight, the supply

of skilled talent trained in this manner is scant; and few have been trained by scientific methods except in the schools started during the war. The result is that we have a far less number of efficient men in both the licensed and unlicensed classes than our chief competitors. Our efficiency in operation as compared with that of our competitors will be comparatively lower so long as this condition continues.

While many good officers and engineers are in service, there is still a shortage of highly efficient officers and a greater dearth of skilled engineers. The supply of engineers is recruited by our competitors from the machinists' trade, while the unlicensed engineers of our ships are largely recruited from the fire-room. All unlicensed engineers must be members of the Firemen's Union until they have served at sea a sufficient length of time to qualify for a license. It is better to be a graduate of the lathe than of the shovel. The trained machinist can effect a large amount of the repairs which otherwise fall to the repair yards. The added cost of engine-department upkeep, due to inefficiency of a part of the personnel, makes a formidable bill to be paid from the earnings of American ships.

Training schools should be extended and expanded in order that skillful instruction may make up, so far as possible, for lack of practical experience. The government should also assist, through some form of naval reserve, in meeting to a measurable extent the higher salaries that are necessary to attract the efficient type of men required for officers and engineers.

Certain provisions of the Seamen's Act, 1915, as amended by the Merchant Marine Act, 1920, impose additional burdens on American ships. The compulsory advance of half wages to seamen in foreign ports seriously affects discipline and the working of ships and involves expensive delays. Protests from 40 consular representatives, in foreign ports, against the continuance of such large advances of wages abroad, have been received by the State Department and laid before Congress. They say that these advances have led to dissipation, the spread of disease, law breaking, and in some instances to crime; while ship-owners constantly receive reports of delays of ships in order to obtain the return of the men on board. These provisions, which do not touch the chief purposes of the en-



actment of the law, are not in the best interests of the seamen themselves, and the Navigation Laws Revision Committee, appointed by the Shipping Board, has recommended their amendment. If the burden of these laws cannot be removed by amendment, the cost of them should be viewed as the expense of a public policy, taken in the seamen's behalf and reimbursed to ship-owners by some form of public grant.

3. The third essential condition of private operation is the removal of competition by government ships.

The Government, at the present time, is the largest ship-owner in the world. Its operation of the ships is not controlled by the considerations of cost and expense that apply to private shipowners. It operates its ships in competition with private shipowners, in the same trades, under the management of operators who have no investment or permanent interest in the enterprise. Its losses, which are reported to be colossal, are borne by the taxpayers.

Competition by private shipowners with their foreign competitors and with their own government cannot long endure. Complaints of this competition reached a congressional investigation committee, which recently interrogated a representative of the Shipping Board on the subject. The remedy reported to have been suggested by him was to sell all privately owned ships to the Government. This, of course, would be a complete reversal of the policy declared in the Merchant Marine Act, 1920, for the sale of all government tonnage to private shipowners. The fact that such an answer could be given by a representative of the Board indicates at least that the complaint was legitimate. The real remedy is the withdrawal of the Government from all such competition.

I have now mentioned the conditions which, I believe, experienced shipowners will agree are indispensable to the transfer of government tonnage into private hands and to the successful operation of it in the foreign trades. The far more difficult and important problem is, how can these conditions be satisfied?

The first step in the transfer of the tonnage to private hands is to find the money to buy the ships. It must be realized that the situation with regard to surplus funds available for this purpose is far different in this country from that in the



countries of our competitors. In all those countries numerous companies, many of them of large capital, were operating before the war, and during and for the first year after the war they accumulated enormous reserves which have strengthened them for all purposes of competition. They are already supplied with tonnage, and they have the funds with which to replace old ships with new and improved vessels more suitable for their requirements.

In this country there were but few companies engaged in foreign trade before the war, and not many of those subsequently organized have accumulated important reserves of capital. The money to buy the government tonnage, therefore, is not in the treasuries of existing companies. It must come from the accumulated savings of investors, and be obtained by the sale of shipping securities.

The natural development of investment in the new industry would be through the expansion of the older, more experienced, and better established companies, with whose securities investors are already familiar. The establishment of new companies would naturally follow but would be of slower growth.

Capital, however, is proverbially timid in embarking upon new enterprises. It will only invest upon assurances by those experienced in the industry of the probability of successful operation, and the terms upon which it will invest will have a very distinct relation to the obstacles which must be overcome in order that profit from the business may be assured.

The obstacles to profitable operation which stand out boldly in the terms and conditions heretofore offered by the government as the basis of sale of the tonnage to private companies are: Excessive capital costs as compared with those of our competitors; the unfavorable differences in operating costs; governmental competition; and the burdens arising, or that may arise, from legislation. Among the burdens from legislation are compliance with the regulations made and to be made under powers granted to the shipping Board; the probability of trade wars arising from the application of preferential railroad rates on goods carried or to be carried in American bottoms, and from the levy of discriminating duties on cargoes carried in foreign vessels, and the allowance of discount from duties on goods carried in American bottoms.

The handicap of excessive capital charges can be overcome in the adjustment of the price at which the ships are sold, and, as a practical matter, in no other way. Without a most drastic cut in the prices that have heretofore been asked by the Shipping Board, the fleet cannot be sold to private companies, because investors will not furnish the money to buy them. If the country really wants to establish a privately owned merchant marine it must understand and accept this essential condition. I do not think the country would object to this, because, as has been well said: "Everyone realized at the time [of building] that the ships were costing far more than they would be worth in ordinary times for the purpose of commerce, foreign or domestic, and that the excess cost was as much the people's sacrifice to win the war as were expenditures for explosives, projectiles, airplanes and artillery. As an economic fact, though not visible to the eye, that excess cost and the value it represented have disappeared as completely as the money spent on exploding shells along the battle front over two years ago. A plain, possibly a statutory recognition of this fact is necessary not only to the operation of a merchant marine on mercantile principles, but, what is of much more general but of less intense local interest all through the country, it is necessary to the development and even the maintenance of our foreign trade."

The valuation that must ultimately be placed on the tonnage will bear no near relation to its original cost nor to the present cost of building, since the world is oversupplied with tonnage, and there will be no demand for the building of this class of tonnage until the present supply is absorbed and assimilated. It will be the market value as measured by the demand for it, and by nothing else. That market value is likely to be low. It will have to be so low that the capital charges based upon it will be reduced to the standard of the capital charges of our competitors. It may have to be so low that the cost of other handicaps incident to operation under the American flag may be taken care of in lower capital charges than those of our competitors. This is a condition which the authorities in Washington are slow to realize or unwilling to face, but it must be realized and must be faced if private capital is to be induced to invest on a large scale in shipping for the foreign trade.

The difference in the costs of operation could be taken care of by such reduction in the price of tonnage that the saving in capital charges would equal the excess in operating costs, or the difference can be equalized by some form of grant from the Treasury.

The fear of competition by the government could be removed by a requirement for the sale of the tonnage within a short period of time, or by the compulsory withdrawal of competition by the government in the trades where ships owned by private companies are affording reasonably adequate service. The latter alternative could be easily provided for by the allocation or chartering to purchasers, for operation, of any supplemental tonnage that may be needed in such trades.

The extensive grant of powers of regulation to the Shipping Board will be a serious deterrent to investment. No abuses existed which really required the grant of such comprehensive powers. That the powers have not been fully exercised as yet is unimportant. Permanent boards in the long run exercise the powers that they have and usually reach out for more. A regulated merchant marine is handicapped, to the extent of the regulation in competition with foreign shipowners who are not subject to regulation. Capital will realize this fact, and will be correspondingly slow to invest in the industry.

The danger of injury to the merchant marine through the application of discriminating rates and duties, as contemplated by the Merchant Marine Act, 1920, is a matter of grave concern to owners and investors.

This statute calls for the denunciation of treaties now in force with all the principal commercial countries that mutually provide against the levying of discriminating duties on ships or commerce. The Underwood Tariff Law of 1913 contains provisions for the levying of discriminating duties except in cases where they may be forbidden by treaty. The termination of the treaties would therefore automatically put these discriminating duties into effect.

The levy of discriminating duties and rates is a measure peculiarly susceptible to reprisal. If such a policy should be adhered to by this country it would unquestionably be met by our competitors in the same manner that we met the attempt of France to levy discriminating duties after the Franco-Prussian

War. That was the first and only attempt to build up a merchant marine by the use of discriminating duties since 1815. President Grant, under the power conferred by the Revised Statutes, placed retaliatory duties upon French shipping. After a short and active fight the discriminatory duties were abolished by France, and the President, in 1869, by a further proclamation, abolished the discriminatory duties levied by us against French commerce.

The question of the employment of discriminating duties as an aid to the American merchant marine was very fully considered by a commission consisting of five senators (Gallinger, Lodge, Penrose, Martin and Mallory) and five members of the House of Representatives (Grosvenor, Minor, Humphrey, Spight and McDermott) in 1904. An exhaustive series of hearings, lasting about eight months, was conducted by this commission. It held meetings in all sections of the country and took testimony to the extent of 2,000 pages from all classes of people interested in foreign commerce.

The Commission decided against the policy of discriminating duties by a majority of 7 to 3. A report entitled, "Why a Majority of the Merchant Marine Commission Did Not Recommend Discriminating Duties" embodying conclusive reasons against it, was presented to the Senate by Senator Gallinger on February 21, 1905 (Senate Document 169, 58th Congress, 3rd Session). All the members of the Commission concurred in the report except Senators Martin and Mallory and Representative Spight.

Among the grounds stated for declining to adopt this policy were: (1) that from 60 to 70 per cent of the bulk or tonnage of our imports was on the free list, so that only approximately one ship in three could gain advantage from discriminating duties; and (2) that as the balance of our trade is in exports, our competitors, under principles of reprisal, could lay discriminating duties on a greater quantity of exports than we could place on imports even if all the articles on the free list should be made subject to the discriminating duties. Both these reasons apply with greater force at the present time. We have now a larger bulk or tonnage of imported products on the free list, and the balance of our exports over imports is far greater than in 1904. The prospect of having our com-

petitors levy discriminating duties upon our exports, valued at more than \$2,000,000,000 in excess of our imports, while we fight them with discriminating duties on goods of that much lower value, seems a dubious encouragement to an American merchant marine.

It is, of course, for the Legislature to decide upon all questions of national policy. It is a fact, however, that the ship-owning industry did not ask Congress for these provisions of the statute and were not heard upon them. In 1904 the protest of shippers alone was sufficient to turn the scale against the policy of discriminating duties.

Before concluding definitely to adhere to that policy it would seem that Congress should at least make a further and more careful study of the subject, and seek the advice of all classes of the community that would be affected by its adoption.

I mention the matter now not for argument, though personally I believe the policy would be ruinous, but because, whether it be a wise or unwise policy, it would inevitably lead to serious and protracted trade wars, and I am sure that capital would not embark largely in an industry which is to start out with trade wars on its hands. The setting aside of the provisions for reciprocal equality in the treatment of ships and commerce, now contained in more than 30 treaties with the principal commercial nations of the world, would create a condition of demoralization in commerce that intending investors in the merchant marine would view with the greatest alarm.

## COMMENTS ON THE MERCHANT MARINE ACT OF 1920

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**I**T was rather a condition than a theory which confronted the United States at the termination of the world war. With 4 billions of dollars spent in the creation of millions of tonnage, and vast shipbuilding plants created upon a scale and with a rapidity hitherto unprecedented, the government was forced to seek a solution which would conserve for national interests as much as possible of this shipping with a minimum of loss.

No American, it seems to me, could object to the legislation contained in the Merchant Marine Act, which popularly bears the name of Senator Jones, merely as an attempt to meet this most difficult problem. We should all be happy and proud to find the United States in possession of a merchant marine compatible with our commercial powers and political importance. The differences of opinion which may arise can scarce concern the objects for which Senator Jones has so earnestly striven, but must confine themselves to a discussion of the expediency of the means adopted to afford American enterprise an opportunity to enter upon competition with foreign nations upon some basis of approximate equality. Elaborate provisions of this most important enactment can scarce be discussed here in detail. The powers given to the Shipping Board, the regulations as to coasting vessels, as to classification, insurances and mortgages, are highly technical matters which must be left to the mercy of experts, many of whom, I presume, were consulted by the framers of the bill before it was embodied in final form.

There appears to be no legitimate criticism of the prohibitions against unfair competitive practice, whether engaged in by American or foreign companies, and the law seems to be in conformity with settled industrial policy for the prevention of unfair, disloyal, or fraudulent competition.



That the mails should be carried on American ships wherever practical, surely seems a sound provision, and the attempt to encourage an American bureau of shipping, as a necessary adjunct to a powerful merchant marine, would surely seem the part of wisdom.

There are, however, two and but two features of this most important legislative act that I shall briefly comment upon now. They are the features stressed by Senator Jones in his very able report to the Senate of May 4, 1920. They are important as enunciating new national policy, designed so to favor American shipping interests as to give them sufficient advantages to neutralize the advantages now possessed by certain foreign nations. They indicate a departure from settled policy and usage, and are believed by many, "for weal or for woe", to inaugurate an era of trade competition of an ever-growing intensity.

The two provisions referred to are, first, section 28, providing as follows:

That no common carrier shall charge, collect, or receive, for transportation subject to the Interstate Commerce Act of persons or property, under any joint rate, fare, or charge, or under any export, import, or other proportional rate, fare, or charge, which is based in whole or in part on the fact that the persons or property affected thereby is to be transported to, or have been transported from, any port in a possession or dependency of the United States, or in a foreign country, by a carrier by water in foreign commerce, any lower rate, fare or charge than that charged, collected, or received by it for the transportation of persons, or of a like kind of property, for the same distance, in the same direction, and over the same route, in connection with commerce wholly within the United States, unless the vessel so transporting such persons or property is, or unless it was at the time of such transportation by water, documented under the laws of the United States. Whenever the board is of the opinion, however, that adequate shipping facilities to or from any port in a possession or dependency of the United States or a foreign country are not afforded by vessels so documented, it shall certify this fact to the Interstate Commerce Commission, and the commission may, by order, suspend the operation of the provisions of this section with respect to the rates, fares, and charges for the transportation by rail of persons and property transported from, or to be transported to, such ports, for such length of time and under such terms and conditions as it may prescribe in such order, or in any order supplemental thereto. Such suspension of operation of the provisions of this section may be terminated by order of the commission whenever the board is of the opinion that adequate shipping facilities by such vessel to such ports are afforded and shall so certify to the commission.

This section prevents a continuance of the practise now engaged in by common carriers favoring, through preferential rates, foreign commerce—whether carried in American or foreign ships. In the language of Senator Jones this section provides that "This preference or lower rate can be given on railroads only, except under certain conditions, when the goods are exported or imported in American ships. This is a practise followed by other countries and it can be and should be followed most effectively by us."

The Shipping Board reported that by such measures Germany before the war, "guaranteed 60 per cent of its exports and 50 per cent of its imports in German vessels", and in similar fashion "Japan prevented even American transcontinental railroads owning ships from successfully operating them across the Pacific in competition with vessels of Japan, making it necessary for such transcontinental roads to enter into contracts with Japanese carriers and give to vessels of such carriers freight, which, if carried by their own American vessels, would have insured their success."

It will be observed that this limitation upon the railroads involves no question of international law, and is a matter wholly within the competency of our domestic legislation, unaffected by existing treaties, or international arrangements. As far as it may operate against nations which have already adopted a similar policy, it may well be defended as a mere reciprocal or retaliatory action falling within the domain of self-defense rather than aggressive commercial war. As against nations already having discriminatory railroad rates, this rule would not be violative of the settled American policy against discriminative commercial legislation, to which I shall hereafter refer.

As applied generally, however, to all nations without discrimination between those who give American shippers equal facilities, and those who prefer their own nationals, this section may be criticized as legislation of a commercial character tending to discriminations and leading, naturally, to reprisals.

Leaving for the moment the discussion of the wisdom of such a policy, I turn to a more important section of the act which has already given rise to acrimonious political discus-

sion, and which involves matters, not only of national policy, but also important questions of constitutional law. Some of the latter apparently have been injected into pre-election controversies at a time when heat and partisan rancor usually supplant the calm consideration which questions of this intricate and difficult nature fundamentally require.

In speaking of the policy involved in the abrogation of the existing commercial policy, I speak as a citizen interested in the upbuilding of a powerful prosperous merchant marine designed to further American commercial development on all the oceans, and to insure the subsidiary but necessary means of defense in the event of war. The sole light in which this most important feature of the Jones Act is to be considered is as to whether, first, it will in reality tend to this desirable end, and, second, whether even if for the moment it should result in added advantage to the American Merchant Marine such advantage may not be purchased at too great a cost to the national interest. As to the constitutional questions involved, which are of a subsidiary nature, I must speak merely as a student of constitutional law, and without concern regarding the policy which the act indicates.

The act contains the following very far-reaching clause:

That in the judgment of Congress, articles or provisions in treaties or conventions to which the United States is a party, which restrict the right of the United States to impose discriminating customs duties on imports entering the United States in foreign vessels and in vessels of the United States, and which also restrict the right of the United States to impose discriminatory tonnage dues on foreign vessels and on vessels of the United States entering the United States should be terminated, and the President is hereby authorized and directed within ninety days after this Act becomes law to give notice to the several Governments, respectively, parties to such treaties or conventions, that so much thereof as imposes any such restriction on the United States will terminate on the expiration of such periods as may be required for the giving of such notice by the provisions of such treaties or conventions.

The abrogation of the treaties referred to would have the effect of putting into operation the Customs Law of 1913 ( § 4 par. J. subsec. 7. Vol. 38 p. 196):

That a discount of 5 per centum on all duties imposed by this act shall be allowed on such goods, wares, and merchandise as shall be imported in vessels admitted to registration under the laws of the United States: PROVIDED, That nothing in this subsection shall be so construed as to

abrogate or in any manner impair or affect the provisions of any treaty concluded between the United States and any foreign nation.

This clause was considered by the Supreme Court of the United States in the so-called "Five Per cent Discount Cases", reported in Vol. 243, U. S. Rep., p. 97 (Oct. Term, 1916). In this case the government contended (p. 106)—

That while the subsection may indicate a reversal of the policy of reciprocity that has prevailed more or less for the better part of a century, Rev. Stats., §4228, it relies upon future negotiations to make the change effective and suspends action while the present treaties remain in force, since it could not give the discount to merchandise in American bottoms alone without breaking the numerous treaties to which we have referred.

This argument of the government thus summarized by the court, was adopted, and made the basis of the decision of the court.

The object, therefore, of the clause in question is, by forcing a prompt termination of these treaties, to make effective the 5 per cent discriminatory duty in favor of goods carried in American bottoms, and thus inaugurate a new policy of commercial discrimination against foreign vessels regardless of the doctrine of reciprocity heretofore pursued by the American government.

During the early part of the eighteenth century the United States was the champion of commercial freedom, and the enemy of discriminatory privilege and taxation. The Government of the United States early adopted, as a fundamental policy, the doctrines of reciprocity, and first set them forth in the preamble to the Treaty of Commerce with France of 1778 (Moore's Principles of American Diplomacy, p. 107), in which it was declared:

that the contracting parties wishing to fix in an equitable and permanent manner the rules that should govern their commerce, had judged that this end could not be better obtained than by taking for the basis of their agreement the most perfect equality and reciprocity, and by carefully avoiding all those burthensome preferences which are usually sources of debate, embarrassment and discontent; by leaving also each party at liberty to make, respecting commerce and navigation, those interior regulations which it shall find most convenient to itself; and by founding the advantage of commerce solely upon reciprocal utility and the just rules of free intercourse; reserving withal to each party the liberty of admitting, at its pleasure, other nations to a participation of the same advantages.

John Quincy Adams declared that this policy "was to the foundation of our commercial intercourse with the rest of mankind, what the Declaration of Independence was to that of our internal Government", and, "that the preamble to the treaty with France laid the cornerstone to our subsequent transaction of intercourse with foreign nations." (Moore's Principles of American Diplomacy, p. 108.)

After years of controversy, the same doctrine was embodied in Article 2 of the Convention of Commerce and Navigation of 1815 with Great Britain, providing for reciprocal equality of duties:

The same duties shall be paid on the importation into the United States of any articles the growth, produce or manufacture of His Britannick Majesty's territories in Europe, whether such importation shall be in vessels of the United States or in British vessels, and the same duties shall be paid on the importation into the ports of any of His Britannick Majesty's territories in Europe, of any article the growth, produce or manufacture of the United States, whether such importation shall be in British vessels or in vessels of the United States. (Malloy's Treaties Conventions, International Acts, etc., Vol. 1, p. 625.)

The final resultant of the long struggle for the establishment of this principle resulted in the Act of May 24, 1828, which is still in force and which constitutes "a standing offer for the reciprocal abolition of all discriminating duties without regard to the origin of the cargo, or the port from which the vessel came." By numerous proclamations and treaties, this doctrine has been extended to cover practically the whole field of American commerce. The law is set forth as follows in Sec. 4228, Fed. State. Ann., Vol. 3, p. 76):

#### SUSPENSION BY THE PRESIDENT.

Upon satisfactory proof being given to the President, by the government of any foreign nation, that no discriminating duties of tonnage or imposts are imposed or levied in the ports of such nations upon vessels wholly belonging to citizens of the United States, or upon the produce, manufactures, or merchandise imported in the same from the United States or from any foreign country, the President may issue his proclamation, declaring that the foreign discriminating duties of tonnage and impost within the United States are suspended and discontinued, so far as respects the vessels of such foreign nation, and the produce, manufactures, or merchandise imported into the United States from such foreign nation, or from any other foreign country; the suspension to take effect from the time of such notification being given to the President, and to continue so long as the reciprocal exemp-



tion of vessels, belonging to citizens of the United States, and their cargoes, shall be continued, and no longer. PROVIDED, That the President is authorized to suspend in part the operation of sections forty-two hundred and nineteen and twenty-five hundred and two so that foreign vessels from a country imposing partial discriminating tonnage duties upon American vessels, or partial discriminating import duties upon American merchandise, may enjoy in our ports the identical privileges which the same class of American vessels and merchandise may enjoy in said foreign country.

This policy so set forth expresses the settled conviction of the then leaders of American opinion that no profit was to be gained, or prosperity obtained, by a continued pursuit of the eighteenth century policy of commercial monopoly and trade-war. It was a reaction against that selfish, excessive, protective policy, based upon the false belief that the prosperity of one nation detracted from the wealth of the other. Experience had shown that such policy was too apt to lead to commercial disaster and to continued warfare. It was definitely and finally abandoned by Great Britain in the middle of the century. If it was revived at a later time by German imperialism, with apparent success, as pointed out by Senator Jones, I cannot feel that its wisdom or expediency was thereby demonstrated, or that the German people are now convinced that such a policy led to fruitful result.

It may be too early to pronounce thereon the verdict of history, but I hesitate to believe that the inauguration of a policy of commercial restriction can be successfully defended by introducing German pre-war prosperity as a precedent. It may not be inappropriate to say "*adspice finem*", and to query whether, among the essential causes of Germany's downfall, may not have been included a governmental policy of commercial favoritism and artificial stimulus, which ended in isolating Germany so completely from the intercourse of more civilized mankind.

It is also perhaps too early to speculate upon the benefits which Japan will derive from the policy of exclusive commercialism, but that such a policy will naturally excite suspicion, antagonism and commercial retaliation would seem clearly indicated.

I am fully sensible of the fact that changed conditions may well dictate a changed policy, and that what was wisdom for the fathers, might be folly for their descendants. The map of



the United States of 1815 would not serve as a guide today, and national policy may well, within certain limitations of primary justice, vary from generation to generation.

Like causes would, however, logically and inevitably appear to entail like results, and if America is to abandon the policy of reciprocity, now more than a century old, it must sternly face the fact that it is embarking upon a commercial war, and setting free those economic factors, which, with fatalistic precision, have so often led to ruinous governmental competition followed by actual warfare.

Whether in the future a policy of this kind could be so adopted as to avoid these consequences, it is impossible to say, but that discriminatory duties will be met by retaliatory action is a human certainty, and that such retaliation must provoke future discrimination until ruinous intergovernmental competitive commercialism has brought forth its full fruits, does not seem unlikely.

Are the proponents of this bill satisfied that the two discriminative features referred to will sufficiently equalize competitive conditions to enable the American Merchant Marine successfully to compete with the foreigner? If not, surely these clauses are hazardous departures from reasoned policy.

I make no pretense to expertness in economic history, but I seriously question Senator Jones's inference, "that a discriminatory policy was largely causative in the creation and maintenance of the American Merchant Marine during the first half of the eighteenth century". The differences in conditions of labor, in the transition from wood to steel, and in the policy of protective tariffs would seem, perhaps, to account more adequately for the downfall of that merchant marine than the adoption, in the early part of the century, of a policy of reciprocity based upon justice, expediency, and the teachings of history. Growing attention to developing domestic resources and commerce were surely the main reasons for the decline of merchant shipping.

Is there not then some effective and practicable method which might be inaugurated to maintain, in private hands, the great American Merchant Marine now existing as a resultant of war activities?

Senator Jones, with wisdom and prudence, as I believe, con-

demns direct government ownership, or the giving of subsidies. The latter method, save in exceptional situations, seems to be discredited by experience, and I understand is now condemned by the best opinion in France, where the system has had full trial.

From the standpoint of practical politics, it is more than doubtful whether the American public would burden itself by direct taxation for the maintenance of this merchant marine as a heavily losing investment. "Government ownership", as Senator Jones well says, "is even less to be thought of than government ownership and operation of railroads." In addition to the other sufficient objections, that may be urged against it, the chance of conflict with foreign nations is immeasurably increased where the vessel is directly owned by the nation, and any actual, or supposed, injury or discrimination is thereby immediately resented as one against the American people rather than against the individual owner, the justice of whose complaint may be calmly considered by the American government upon its intrinsic merits.

There is, however, I believe, a very practical plan that might be pursued by a sacrifice on the part of the government, which would place Shipping Board vessels in a position where competition would become possible.

At the present time a Shipping Board vessel must earn \$13.50 a ton in order to pay a reasonable return upon the investment. British vessels quote tonnage rates at \$7.25 to \$8.00 a ton, and Swedish vessels quote tonnage rates at \$2.75 to \$3.00. It is apparent that competition is thus impossible, and that even a 5 per cent discriminatory duty on railroad preferential rates to American bottoms would not create equality of conditions, even in the absence of inevitable retaliation.

This sum of \$13.50 a ton is made up as follows:

- (1) Cost of tonnage (165-200 per d. w. ton).
- (2) Interest on cost.
- (3) High premium interest based on high cost-value.
- (4) Annual depreciation of 7 per cent.
- (5) Sinking fund for repairs.
- (6) Operating costs.

If the Board, squarely facing the situation, would recognize

the enormous shrinkage in tonnage values, and write off from the 4 billion dollars, cost of the American Merchant Marine, 2 billion dollars of actual loss, it would then be possible to make a tonnage price which, I am informed by experts, would allow the making of American rates very much more nearly approximating the foreign rates.

This result reached, the Shipping Board, in pursuance of a policy of reciprocity, should endeavor to encourage the making of rate agreements among the leading maritime nations, which, while enabling America to obtain a due proportion of trade, would reach this result without forcing a rate-war, ruinous competition, the reversal of a century of settled policy, and the creation of world-wide antagonism.

Facts should be substituted for fiction; courage, for political expediency; business, for politics, and the Shipping Board, dealing with actualities and abandoning pretense, should write off 2 billion of dollars of book value, and thus base its policy upon fact, truth, and expediency.

Regarding the constitutional question involved in Section 27, the legal situation, when denuded of all extraneous considerations, becomes a question of the exercise of power between the executive and the legislative branches of the government, and seems to me to involve the following situation:

The Chief Executive has refused to follow the directions of Congress directing him to terminate so much of such treaties—

\* \* \* as imposes any restriction upon the right of the United States to impose discriminating customs duties on imports entering the United States in foreign vessels and in vessels of the United States, and which also restrict the right of the United States to impose discriminatory tonnage dues on foreign vessels and on vessels of the United States entering the United States \* \* \*

It seems to me that the criticism aroused by this action so widely denounced in the public press, is based upon misapprehension in regard to the respective functions of the President and Congress in the making, terminating, and general procedure regarding treaties.

The President has full power to negotiate treaties, but in order that such negotiated treaties may become effective, the advice and consent of the Senate expressed in a two-third majority is made necessary by the constitution. Congress may

make such recommendations on the subject as it chooses, but the constitution gives it no legal power whatever in regard to compelling the Executive to enter upon negotiations for such treaties. On the other hand, as frequently happens, legislation is necessary to carry out the provisions of a treaty, and in that event Congress alone must judge as to such legislation, and may refuse to make such treaties effective by so legislating. Thus the actual power of refusing to abide by a treaty is frequently in the hands of Congress. Congress may also enact legislation inconsistent with and practically nullifying an existing treaty, and such legislation is controlling upon all courts and officers of the United States without regard to its effect upon American international relations, which are not a subject of municipal law.

Precedent also exists for the termination by Act of Congress of a treaty as a whole. Such action simply constitutes notice to the other party that the United States refuses longer to recognize any obligations flowing from the treaty and considers it terminated.

The termination of certain particular provisions of a treaty, however, rests upon a wholly different basis. The termination of a treaty as a whole is analogous to the cancellation of a contract; but the elimination of specific provisions cannot take place without the consent of the other party to the treaty. The treaty can only stand shorn of the eliminated provisions provided the other party is willing that the treaty be so mutilated. If not, such other party can elect either to consider such notice of elimination as a cancellation of the whole treaty, in which event, the object of the statute referred to would not have been effected, or may hold the United States obligated under all the clauses of the treaty as a matter of international law. Congress, therefore, in enacting section 34 of the Merchant Marine Act was, in fact, directing the President to negotiate certain treaty modifications, or, in other words, to make different or new treaties. This nowhere appears in the constitution as within the power of Congress and would, therefore, constitute an encroachment upon the functions of the Executive as defined by that instrument.

Congress could, indeed, have imposed discriminatory duties and tonnage dues in the act, regardless of existing treaty pro-

visions, and, while such action would have been a breach of the treaty, redress could only have been sought by arbitration or diplomacy, and the action of Congress would have stood as law within the territorial limits of the United States. Congress might have adopted the method followed by the Seamen's Act of March 4th, 1915, in directing that notice of the passage of such act be given to all foreign governments affected, and that the provisions thereof should become effective at the end of a certain definite period of time thereafter.

In this case Congress chose neither alternative, but merely sought to clear the field for future action by directing the President to procure the consent of the other parties to the elimination of certain provisions inconsistent with such freedom of future action, while maintaining in force all the other treaty obligations contained in such treaties. The Executive has thus merely refused to attempt to negotiate the new treaty relations proposed by Congress, and in so doing has, in my opinion, violated no precedent or constitutional provision.

It has been suggested that as the President signed the bill, he was bound to carry out the directions of section 34. It will be noted, however, that section 36 expressly contemplated the possible partial unconstitutionality of the act, while section 34 contains no affirmative legislation, but is merely a declaration by Congress concerning the expediency of complete freedom in regard to certain possible future legislation; and this pious aspiration of Congress is in no way necessary to the carrying out of the remainder of the complicated and detailed act, which establishes an elaborate system for the regulation of the American merchant marine. The Executive may well have deemed it best that this system be put into operation without delay, and that questions of discriminatory duties and dues be left in abeyance until Congress determine upon a definite policy in this regard. It is not unnatural that the possibilities of international friction, at a time of world-wide unsettlement, should have dictated the wisdom of such action.

The basic question is not a new one. It was discussed at length by President Hayes in his message of March 1, 1879, vetoing a bill directing the abrogation of Articles V. and VI. of the treaty with China of July 28, 1868, in which he said:

The bill before me does not enjoin upon the President the abrogation of



the entire Burlingame treaty, much less of the principal treaty of which it is made the supplement. As the power of modifying an existing treaty, whether by adding or striking out provisions, is a part of the treaty-making power under the Constitution, its exercise is not competent for Congress, nor would the assent of China to this partial abrogation of the treaty make the action of Congress in thus procuring an amendment of a treaty a competent exercise of authority under the Constitution. The importance, however, of this special consideration seems superseded by the principle that a denunciation of a part of a treaty not made by the terms of the treaty itself separable from the rest is a denunciation of the whole treaty. As the other high contracting party has entered into no treaty obligations except such as include the part denounced the denunciation by one party of the part necessarily liberates the other party from the whole treaty. (See Crandall, *Treaties, Their Making, and Enforcement*, p. 461, quoting Richardson, *Messages and Papers of the Presidents*, VII, 518, 519).

No particular articles or clauses of specified treaties were indicated in the Merchant Marine Act. The President was merely directed to ascertain what these clauses were, and either to negotiate modifications, which would be in effect the negotiation of new treaties, or to give notice of termination of the entire treaty, thus relieving the other nations of all obligations thereunder. This appears an awkward, ineffective, and incomplete bit of legislation inconsistent with the dignity of a great nation desirous of expressing a policy. In any event, it seems to have been enacted without due consideration of the precise constitutional limitations placed upon Congress by the provisions of the constitution of the United States.

It is to be hoped that the Merchant Marine Act will be widely studied and maturely debated. It is impossible that so radical a departure from settled national practise and policy, as well as from the recognized dictates of sound economics, be inaugurated without fullest discussion, and otherwise than as a resultant of a settled, intelligent public opinion maturely reached after such discussion.



## CURRENT PROBLEMS IN AMERICAN SHIPBUILDING

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**F**IRST of all, I want to record my appreciation of the splendid work that Senator Jones did in the passage of the Merchant Marine Act. For days, for weeks, and for months he sat with his committee to take the testimony upon which this act was afterwards built up. For days this committee worked to draw the bill, and in my judgment no statute has ever been put on the books of any country that has received more study by better minds than this piece of legislation. That it is not perfect goes without saying, but that it will rank as one of the foremost acts passed by the American Congress I believe history will show.

Now, like the Volstead Act, the real value of this law will lie in its enforcement. It is too bad that weeks and months went by without the appointment of the Shipping Board called for by this bill. It is too bad that when the board was appointed, it stands I believe no chance of confirmation by the present Senate. The opportunity was offered the present administration to appoint last June a strong body that would have been sure of confirmation, but nothing whatever was done to forward the great work that must be accomplished under this bill.

The law specifically provided that within ninety days the President should give notice of abrogation of all commercial treaties, not with the idea of putting into effect discriminatory duties that are now on our statute books, but with the idea of clearing the ground so that the future congress could pass, if it saw fit, a proper and reasonably discriminatory duty bill. The law did not leave the question of the abrogation of these treaties to the discretion of the President. It was a direct order which was absolutely defied by the President, and to a nation of law-abiding citizens this example by the first ruler of the land was not a good one to set.

I believe that when the new President takes office we will see the necessary steps taken to appoint a proper board, and to carry out the requirements of this law. If an intelligent public opinion will bring pressure to bear to see that the positions on the Shipping Board are filled by the very ablest men in this nation, we shall have done a real public service, because no bigger work ever confronted seven Americans than the job that is placed on that body when it is officially organized and properly confirmed.

This Board faces the task of disposing of something like three billion dollars' worth of government property. It faces the task of framing the regulations under which this American merchant marine is to function, that will spell its future success or its inevitable disaster. Reference has been made to the cost of our present tonnage. The United States would not sell its tonnage until the regulations under which American vessels are to operate are settled. Nobody is more anxious to see the tonnage sold and in private hands than the shipbuilders of the United States, because until it is in private hands and until operated effectively by private owners there is going to be very little more shipbuilding. But the value of this tonnage, and the sacrifice which the government must make in its disposition depends entirely on the conditions under which it will operate.

If this government, for instance, should determine that in face of possible commercial wars it was going to apply a very large tonnage tax to foreign ships, the value of American tonnage is enormously greater to the private operator than if no such tax is to be laid. This is a single example of the many questions that should be settled by the Shipping Board or by Congress, and which should have been settled before this time, to permit a proper value to be put on the Shipping Board's tonnage. When those regulations are made the value can be determined. It cannot be determined today.

The relative cost of building ships in this country and abroad, which has a great deal to do with the future of the American merchant marine, during the last years has changed very materially from time to time. Eight months ago or ten months ago we were able to sell a certain tonnage abroad in competition with the foreign builders. Today there is a very

large difference in the price at which foreigners will sell ships as compared with the cost of production in this country; and it is probable, because of the difference in wage scale, that this difference will continue. England's wage scale as compared with American shipyards, is forty per cent of ours today. France's is thirty, and Germany's is twelve. I believe that American shipbuilding is more efficient than that of any other country. To build the same ship in an American yard today will take twenty per cent less hours of labor than in the best of the competing countries, but no one can expect that a twenty per cent greater efficiency will overcome a sixty per cent difference in wages. If the United States wishes to remain in the shipping business, and if it wishes ships built in the United States, which has always seemed to be a corollary of shipping, this difference in cost must be recognized. It is a big factor in shipping.

The smaller but important factor is the cost of operation. The LaFollette Act or the Seamen's Act and the regulations under which American ships are operating, have set up certain requirements that must be met by the American shipowners, which have increased the cost of operation of American ships. Some of us do not look for much modification in those laws. Certainly many Americans do not believe that much modification in those laws is desirable, but if we are to operate our ships under those laws, no possible efficiency will permit competition unless some sort of help from the United States Government is forthcoming that will overcome the difference, and let the American flag continue to fly over our ships on all the seas of the world.

Nearly the first law that was passed by the first congress of the United States was a law that put on our statute books a discriminating duty and a tonnage tax that built up our shipping, until within a few brief years, some twenty odd, we became, from a negligible power, the greatest shipping power in the world. It is also a fact that the causes that brought on the War of 1812 and our other difficulties at that time had nothing to do with the discriminatory duty features in our laws; and there are many of the best minds in this country who have studied the subject, who do not fear in any degree the retaliatory efforts of foreign countries.

Now, every nation has a perfect right to carry one-half of its foreign trade. If we were to say to the world that it is our policy that one-half of all the goods that go to a foreign nation, and one-half of the goods that go from that nation into this country shall be carried in American ships, there is no one who can gainsay that policy; but when ships flying foreign flags, trade say between Argentina and the United States, carrying on commerce between the countries under conditions where an American ship cannot compete, I do not think Great Britain, for instance, has the slightest reason for complaint if we make for ships in that indirect trade such rules as will keep a British ship out of it, provided only that an Argentine and an American ship are treated just the same in that trade. Many of us who have studied the subject believe that such discriminatory duties on the indirect trade is the best solution of the situation that confronts this country today.

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## THE FUTURE OF THE AMERICAN MERCHANT MARINE AS AFFECTED BY ITS FUEL SUPPLY

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UNTIL very recent times the world in general and the United States in particular has devoted but little time to a consideration of the nature, adequacy and sources of its fuel supply. It is, however, no longer possible to continue in this attitude of mind; and it is my intention to ask you to spend a few moments in the examination of certain fuel problems, with the proper solution of which the future of the American Merchant Marine will be intimately connected.

Until the commencement of the World War only a negligible portion of our merchant ships consumed oil fuel. During the war, great new fleets were, however, brought into existence, and many changes were made in the fuel equipment of older vessels. The result of these developments has been that at the present time approximately 60 per cent of all United States merchant vessels are equipped for the burning of petroleum fuel, whereas, taking as an entirety all of the other merchant fleets of the world, we find that only approximately 15 per cent of foreign steam vessels are thus equipped.

To anyone familiar with the results derived from the consumption of petroleum fuel instead of coal, it will be at once apparent from these figures that our American mercantile marine enjoys, by reason of its petroleum-burning equipment, certain very substantial advantages over its competitors—advantages which are the more important when considered in the light of certain handicaps to which our vessels are subject, arising principally from their great cost of construction and to a lesser extent, from their higher cost of operation.

The principal advantages flowing from the use of petroleum fuel are, first, the enormous saving in the fireroom staff. The extent of this can be well imagined when it is remembered that on the great passenger liner "Olympic" the labor of over 350

firemen has been saved since the installation of oil-burning equipment. Not only are the wages of these men saved, but also the space necessary for their accommodation and the food and other supplies which they need. Furthermore, vessels burning oil are practically free from dirt and smoke, can carry fuel for a much greater cruising radius and are able to maintain a steady and unvarying head of steam under almost any operating conditions. So important are these and other advantages that one expert ship operator recently stated that as long as any steamer could buy oil at anything like a reasonable price, it could not afford to convert back to coal even if the coal were furnished for nothing.

In order to maintain this advantage now enjoyed by the American mercantile marine, it is, of course, necessary that an adequate and reasonably priced supply of petroleum should be obtained. As to the size of this supply, the chairman of the United States Shipping Board has recently stated that approximately forty million barrels of forty-two gallons each will be required during the calendar year of 1921. This is equivalent to the cargoes of approximately 580 tank steamships of approximately ten thousand tons deadweight carrying capacity each. And this figure does not include any fuel for privately-owned vessels.

Where can this supply be obtained?

Not in the United States, which country has imported over eighty million barrels of petroleum during the year 1920 and which is planning even greater importations during the calendar year 1921.

So far as the present supply of this fuel petroleum is concerned, it must come in the *near* future principally from Mexico, which is the only foreign country either near the United States or far away in which adequate production has as yet been developed.

But, looking further ahead and remembering the rapid rate at which the reserves of Mexico are being depleted, those who expect to continue the consumption of petroleum as a fuel, must calculate on being eventually compelled to procure a portion of their supply from more distant territories, among which the great petroleum field beginning in the Caucasus mountains and extending through Mesopotamia to the Persian



Gulf, must be considered as containing some of the greatest undeveloped petroleum potentialities.

This preliminary survey of the situation brings me to the essential point which I wish to make at the present time, which is, that the ability of the United States to obtain a petroleum fuel supply partly from Mexico in the near future and partly from the Mesopotamian and other foreign fields at a later date, will depend to a great extent upon the proper solution of two great international problems which confront us today.

So far as Mesopotamia is concerned, it will be remembered that Great Britain has received, under the Treaty of Versailles, a mandate over Mesopotamia, which country is at the present time occupied by her forces. She seems to have construed that mandate as entitling her to control the exploration and exploitation of that territory for petroleum purposes, and to have taken the position that she must be the judge as to what petroleum enterprise shall be allowed to operate in that territory. By a recent convention with France, known as the Pact of San Remo, she conceded to France the right to obtain the benefit of 25 per cent of such petroleum as might be produced from Mesopotamia, although this right is hedged about with certain limitations.

The United States State Department has taken strong ground in opposition to the British theory of the meaning of the term "mandate" and concerning the rights vested in Great Britain by the Treaty. Briefly stated, the position of our State Department is that this mandate was never intended to give any peculiar or special rights to the mandatary, but that it must be considered as in the nature of a trusteeship for the equal benefit, if not of all the world, certainly of all the allied nations by which the war was won. Several diplomatic exchanges have taken place upon this subject; and as the last communication of Secretary Colby still remains unanswered, we can only say that the problem in question remains unsettled, and that the proper determination of the meaning of the term "mandate" as applied not only to this territory but to other great areas of the earth's surface within which petroleum may be contained, will substantially affect the power of the American mercantile marine to continue to enjoy the advantages derivable from petroleum as a fuel.

So far as Mexico is concerned an even graver question is presented. The Mesopotamian situation involves the right hereafter to obtain a petroleum supply in the somewhat distant future; but in Mexico the question is whether the property of United States citizens heretofore lawfully acquired by them pursuant to the preceding laws of Mexico and from which our supplies are *now* being produced may be taken from them without compensation by an arbitrary series of confiscatory laws adopted by the Carranza government and not as yet repudiated by its successors.

Space will not permit an elaborate presentation of this most important situation, but its essential features are these: The commercial development of petroleum in Mexico is due to American initiative, skill and capital. This development was based upon the express and unequivocal language of the then existing laws of Mexico to the effect that the owner of the lands also had the sole right without governmental interference to extract petroleum from beneath the surface. The first of these laws was enacted sixteen years before the commercial development of petroleum commenced in Mexico and this principle has remained in force unquestioned and unchallenged during the full period of thirty-four years. In 1917, after great success had been obtained in this development, the Carranza government promulgated a new constitution, in the adoption of which it may be incidentally noted Carranza violated express precepts of the then existing constitution and laws of the Republic. Under this new constitution, a series of decrees were issued by Carranza, purporting to take over to the nation all of these petroleum properties with no pretense of compensation whatsoever and requiring the owners of these properties as a condition of being allowed to operate them to pay "rentals and royalties" to the Mexican government and to comply with such other conditions as might be established from time to time.

These laws did not pretend to be conservation laws or to have anything to do with the right of the exercise of eminent domain, which in every civilized country can only be exercised upon just compensation being made to the owner of the property expropriated. The situation is exactly the same as though the State of New York should take possession of a house which had

been owned by any of those here present for seventeen years, should pay nothing therefor and should say to the owner that he would be allowed to continue in the occupation of his property only if he thereafter pay not only the same taxes which he had previously paid, but such "rentals" as the State might at any time demand from him. The American companies refused to acquiesce in this confiscatory plan and for three years have been contesting the attempts of the Mexican republic to compel compliance. In every contest they have had the able assistance of the United States State Department, which, after a thorough study of the situation, has, in the strongest kind of diplomatic language, characterized these laws as confiscatory and against the principles of natural justice, and has called the attention of the Mexican government to the fact that it might be the duty of the United States to take measures to protect its citizens who were thus attacked. It is most gratifying to the petroleum companies to be able to say that every one of the many protests which they have made during the period of this controversy has been approved by their own government.

At the present time this situation is developing in a more critical manner than at any previous time. Practices have been adopted by the de la Huerta government and have not yet been repudiated by the Obregon government, which if they continue will drive Americans out of the possession of properties which they bought from private owners and paid for, and which in no case were acquired by governmental concession, and will turn over these properties to those individuals who have sought to secure profit for themselves, at the expense of the real owners, by joyful adherence to the terms of the Carranza confiscatory decrees.

It cannot be too strongly emphasized that no element of "tax-dodging" or "concession-holding" is involved in this controversy, for the American companies have paid in full the enormous and constantly increasing taxation imposed upon them; and in no case has a single square foot of oil territory been acquired by any of these companies pursuant to concessions or other forms of contract made with the government of Mexico, all such properties having been acquired from private ownership.

In this controversy the petroleum companies are entitled to and ask the sympathy and aid of every American citizen who believes in the principle of the square deal and in the proper protection of the lawful rights of Americans abroad; and they especially ask that those who are interested in the future of the American mercantile marine shall by their thoughts and by their influence aid the cause of those whose fight is not only for their own advantage but for the great and unquestioned advantage of American shipping upon the high seas.

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## MERCHANT MARINE POLICIES

WINTHROP L. MARVIN

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Steamship Owners' Association

**W**HAT I have to contribute to the discussion of merchant marine and shipping policies, is from the standpoint of one who is in immediate contact with the actual operation of American vessels, both in the coast-wise and in the foreign trade.

Most of the discussion has dealt, as it has happened, with the subject of discriminating, or, as many people call them, preferential duties. I am not myself an advocate necessarily of the return to what has accurately been described as the policy of our fathers. It is my sincere belief that by coming together and in wisdom and fairness with each other, we may be able to find a better way for giving our merchant marine the protection and encouragement that it absolutely must have and must have without delay, or we shall see our country's flag again blotted from the ocean.

But in justice to what I believe has been in the past a beneficial system, founded by George Washington, Thomas Jefferson and James Madison, founded by the fathers of our government, the men who achieved our freedom, I must beg your pardon for a brief reference to what is now ancient history. As Mr. Powell<sup>1</sup> has said, one of the first laws of the first federal congress under the constitution was a law for the protection and encouragement of manufactures, followed immediately by a law for protection and encouragement of American shipping in overseas trade. That law was, in substance, taken from the policies of other governments, in part, no doubt, as a measure of retaliation but in very large part, as anybody studying the records will recognize, as a deliberate attempt to do for shipping exactly what the first

<sup>1</sup> *Supra*, p. 275.

protective tariff act immediately began to do with success, for American manufacturing.

That law for preferential customs duties went into effect in the year 1789. At that time, a few years after the Revolution, our shipping was virtually in the same condition in which we found it at the outbreak of this great war. We were carrying in our own ships in the year 1789, only 23 per cent of our imports and exports. Foreign ships, chiefly British, were carrying the remainder.

The result of that law, which has been so severely and unjustly criticized here, as it was in the past, was that by the year 1810, our 123,000 tons of overseas shipping of 1789, carrying only 23 per cent of our own imports and exports, had developed into a fleet of 981,000 tons of shipping, carrying more than 90 per cent of our imports and exports. I appeal to the judgment of the Academy of Political Science as to the result—the most successful, economic maritime policy which the world has seen.

In our dealings with other governments and in treaties, we gradually departed from the policy which, I think, was at the time good. It had, by the way, in spite of its discriminatory characteristics, involved us in no serious controversies with any foreign nations. The War of 1812, our second war for independence, was fought in remonstrance against the impressment of American seamen, on the decks of American merchant ships, into British naval service, by the immense power of the British navy.

We were wise, I think, in gradually departing from that policy. It is a possible source of disturbance, among the nations, but our principal reason in giving it up, as we gradually did through a series of successive treaties, not finally accomplished as against Great Britain until 1849, was that the merchant marine under that policy had developed, in spite of its higher wages—for wages were then higher here than foreign wages, exactly as they are now—we had built up a great ship-building and -owning industry, and our flag was seen on every sea. We felt the policy had served its purpose, and that thereafter we could stand alone. I am inclined to believe we might have stood alone, for we continued, a number of years after the policy in the main had been abandoned, to build our ships and



to make a beginning on the North Atlantic, of what was at that time the finest fleet of wooden steam tonnage in the world.

But a new element entered into the situation—the development of the steam engine, the side wheel and screw propeller, and the use of iron as a substitute for wood in shipbuilding. That changed radically the conditions of maritime competition. At the same time Great Britain, whose skillful diplomacies had been framed, possibly to our disadvantage because we were less experienced, began to apply a new and extremely formidable mode of encouragement to shipbuilding and navigation. It is a policy to which she has adhered inflexibly to the present time. We emulated her—and it happened to be on the initiative of a Democratic President and a Democratic Congress—in 1847, in a policy of postal and naval reserve subsidies to steamship lines. Under that policy we were more successful than Great Britain. Our steam fleet increased more than did Great Britain's, and was superior in the size of the ships and the character of the service.

Then came the war between the states. In the long political controversy that preceded it our mail subsidies were abandoned, and then gradually our flag retired, so that before the Civil War only one very small transatlantic steam line remained in operation. When that happened, when the American flag was hauled down off our steam lines on the North Atlantic—the principal American shipowner in the city of New York, Mr. A. A. Low, a New Englander, the father of the late honored Seth Low, long President of Columbia University, an authority on this continent and abroad in shipping matters, left this record of the cause of the disappearance of our flag; Mr. Low said at that time, with the facts before him, that "Britain had driven us from the seas by her subsidies as effectually as she ever drove an enemy from the ocean by her guns."

We have in maritime diplomacy been out-generalled not only by Great Britain, but by other nations. When we by mutual treaties, gave up the protection of our fleet, Great Britain first, and France next began the granting of shipping subsidies to their great lines of steamers, that everywhere and always constitute the backbone of a merchant marine.

I am not appealing for a return to subsidies necessarily, I am not advocating at all a return to the system of discriminatory customs duties and tonnage taxes, but I would emphasize the fact that in some way we Americans must agree, and act instantly, upon some policy that is wise and effective. Mr. Stevens has said <sup>1</sup> that we might wait a while and see if under changed conditions we were not able to get along on the high seas without national help. I wish we were, but I must recall the fact that within six months our shipping, our new shipping, built at the expense of all the American people, has begun to be driven off the ocean routes, just as it was at the end of the Civil War, and in the years before the great war, by the competition of the more cheaply manned and cheaply built ships of foreign countries.

One of the great trades that the recent war developed was the export of American coal from Hampton Roads to Europe. That trade at the outset was controlled by American shipping, but as the war receded further from us foreign ships came more and more into that trade, until a few weeks ago, with the falling of the rates, the Shipping Board itself withdrew—quitted the contest before it was fairly begun.

I would emphasize the fact that there are many American steamship companies, managed by competent men, whose skill has come down, just as the skill of the English, through many generations. There is not on the face of the world today a naturally more capable, enterprising and efficient seagoing population than that which you will find along our coast, from Eastport to the Capes of Delaware. There are men there who have never given up the ship. They can count eight or ten American seafaring generations. I believe with all my heart, with some knowledge of the ocean and its affairs, that American seamen of the thoroughgoing type, are as truly as in the days of our clipper ships, the most efficient in the world. We have a host of the best engineers and the most skilled and efficient mechanics. Nevertheless out of that Virginia coal trade our ships have been driven, because foreign ships with lower wages and standards of living can operate more cheaply than ours. British and Japanese

<sup>1</sup> *Supra*, p. 243.

lines with enormous subsidies are rapidly driving out of the Pacific ports our American Pacific fleet.

The war is on us. The time is here now when we must agree on some means of protection to American navigation and ship-building alike. There is no use in denying the facts; we are face to face today with the same kind of competition that our fathers faced years ago, and unless the United States, in its wisdom, by the unanimous support of the American people, immediately puts the protecting arm of our government around the American commercial fleet, we shall again find ourselves as helpless as we were at the outbreak of the late great war.

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## " EDUCATIONAL TRAINING FOR FOREIGN TRADE "

L. S. ROWE

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**D**URING the last ten years leaders in American commercial expansion have come to me with the statement that they are prepared to undertake a systematic trade campaign in Central and South America, but that they are always confronted with the difficulty of securing men adequately prepared to take up the work. If I may be permitted to lay before you some personal observations, I would add thereto another and even more serious difficulty. Large numbers of our young men are now following the courses of study in the special schools of commerce that have been established in the leading universities, and that have been growing at such pace that they are unable to accommodate the extraordinary influx of students. Boston University has taken a further step in advance by establishing a branch school in Havana, the courses of which are interchangeable with the parent school at Boston. Under the directorship of Dr. Clarence J. Owens, of the Southern Commercial Congress, a Pan-American School of Commerce is now being planned to be established at Panama some time during the coming year.

The study of foreign languages, and especially Spanish, is growing apace in all our institutions. Within a very few years, therefore, we may look forward to securing a steady stream of trained men whose technical training will equip them to undertake the representation of American trade in foreign lands. At this point a difficulty presents itself which, in the past, has been of the most serious character and which mere technical preparation is not likely to overcome. It is idle to gloss over the situation with fair words. We must definitely face the fact that, for a number of reasons, the United States furnishes a smaller percentage of satisfactory foreign representatives than any other of the trading nations. This is due in part to a certain provincialism of the American mind, and in part to a lack of

mental adaptability and elasticity which results in making the American representative abroad, especially in the countries of Central and South America, the embodiment of unrest, of discontent, and of homesickness, with the resultant lack of interest in the institutions and civilization of the nations in whose midst they find themselves. There is in this respect a marked contrast between American trade representatives and those of the Swiss, Dutch, French, or even British nationality. In what might be called traveling salesmanship the American invariably excels. Initiative, energy, and resourcefulness characterize his campaign, but as a permanent trade representative, whose problem involves establishing close contact with the people, he proves himself the inferior of his foreign rivals.

There is no country of Central or South America which does not afford abounding interest to the intelligently alert. Their history has, in many respects been far more dramatic than our own, and they all possess a literature rich, varied and full of interest to any one who will make a slight effort to acquire an acquaintance therewith. Unfortunately, a considerable proportion of the younger men going to Central and South America as permanent representatives fail to acquire anything more than a smattering of the Spanish or Portuguese language, as the case may be, and their interest stops at this point. They make but little effort to establish social contact with the people and thus are deprived of the recreations that accompany such social intercourse.

There is another aspect of the situation which should have our attention. I am convinced that the ultimate form of American enterprise in Central and South America will be a form in which American capital will be joined with local capital in the establishment of new enterprises. That form has great commercial advantages. It has at the same time marked international advantages from the larger standpoint of our international relations. There has been up to the present time little or no attempt on the part of American capitalists to encourage local capitalists in Latin America to join with them in the founding of new enterprises. This is due in part to the fact that there has been comparatively little local capital available for any enterprise. The time is now coming, in fact is now at hand, when local capital is available and when one of the most

secure means of investing American capital in Latin-American countries is to combine local capital, thereby securing in that country a group of men whose self-interest leads them to protect and foster the enterprise. The great advantage of this form of joint enterprise is that in case of difficulty it is not necessary to recur immediately to diplomatic channels, which is always a source of irritation to Latin-American governments.

The foreign representative who adapts himself to the local environment, who becomes acquainted with the people and gains their confidence, soon places himself in a position which enables him to interest local capitalists in his enterprise, or in the formation of new enterprises involving the cooperation of American with local capital. I have in mind at the present time an organization which has just been formed in Argentina; a bank that has been founded by a combination of American and Argentine capital. That bank is to be the sponsor of a series of further enterprises in which American and Argentine capitalists will cooperate in developing the resources of that country.

The lessons of experience indicate in no uncertain terms that with technical preparation, such as is afforded in our schools of commerce, we must combine a broader training which will arouse in the young men who go to Latin America as trade representatives a real interest in the people with whom, for the time being, they have cast their lot. Combined therewith there must exist an adaptability and breadth of sympathy which will lead them for the time being to identify themselves with the peoples to whom they have been accredited. Nothing short of this will bring permanent success.

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## BRITISH SERVICE FOR TRADE PROMOTION AND INFORMATION

P. HARVEY MIDDLETON

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**I**T has been well said that while to other countries foreign trade is a convenience or a luxury, to England it is an absolute necessity. In only one of the raw materials vital to her industries—coal—is there a surplus in the United Kingdom. All the others—ores, fibres, timber and oils, as well as cereals and meats—Great Britain is obliged to import either wholly, or in the greater proportion, and the necessity for paying for them requires a large and ever-increasing export trade.

Small wonder, then, that all the trade promotion forces of the British government, in conjunction with an ever-growing number of trading companies, industrial combinations and overseas banks, are engaged at the present time in building up a colossal machine for the securing of trade in every part of the world. During the decade preceding the war, the Germans had succeeded in making serious inroads in certain foreign markets in which the British manufacturer formerly held a leading position. This was partly due to the German development of new industries of importance, such as the electrical, but more to the German concentration of industry, finance and transport, as exemplified in the German cartel system.

Great Britain is today determined to recapture the trade won from her in pre-war days by the Germans, and although she is compelled to resume her financial and industrial rôle with enormously increased burdens, she takes up the commercial struggle with the great advantage of having to learn very little about the conditions under which it can be successfully prosecuted.

The superabundance of capital which existed in Great Britain before the war caused the overflow from that country to be directed around the world. There was thus developed in the

United Kingdom a large body of investors accustomed to employ their capital in other countries, and their investments naturally became channels of outlet for the products of British industry. A British railway in South America, for instance, was a ready market for British railway supplies; a British mine in South Africa bought British mining machinery, and so on, and the returns from these foreign investments were the means of financing British imports. There has thus been created in London not merely a market for British products and for imports needed for home consumption, but a distributing market for the rest of the world. British ships are in every port; British traders and bankers are in every market. There has been British capital available everywhere, ready to build a railway, to buy a mine, to develop a plantation, to construct harbor work, or move the products of a country to distant markets.

#### *Trading and Banking Corporations*

A brief reference to some of the important British foreign trading organizations formed in the last three years will be sufficient to emphasize the very practical manner in which the British trader has established himself in foreign fields. There is first of all the British Trade Corporation, a ten million dollar concern which controls the Trade Indemnity Company, insuring foreign credits; the South Russian Banking Agency; the Anglo-Brazilian Commercial and Agency Company; the Levant Company; the National Bank of Turkey, and J. W. Whittall of Constantinople. Either by direct operation or through these subsidiaries, the British Trade Corporation is doing business on an extensive scale in Brazil, Turkey, South Russia, Serbia, Roumania, Bulgaria, Mesopotamia, Greece, Egypt and the Sudan.

The Anglo-Danubian Association was recently formed in London for the purpose of promoting trade between the Austro-Hungarian succession states and Great Britain and her allies. It is proposed to supply raw materials on trust to these states, the finished products being re-exported to markets which can pay either in goods or money. Another typical British organization is the African and Eastern Trade Corporation, which was recently amalgamated with Lever Brothers. The

African and Eastern is strongly entrenched in Southern Nigeria, Southwest Africa, Congo, Liberia, Morocco, Syria, Palestine, Mesopotamia, Persia, Turkey, Roumania, Bulgaria and Singapore. I am told that this company will also shortly open branches in Egypt and in China. Some idea of the magnitude and successful operation of this corporation may be gathered from the fact that their turnover in 1919 was £22,000,000 sterling and that they were able to pay dividends of 50 per cent for the year ending June 30, 1920.

As part of the machinery which has made possible the successful operation of these foreign trading organizations, there have been established adequate British banking facilities in foreign countries. As typical of these foreign banking organizations, controlled by British capital, may be mentioned the P. and O. Banking Corporation, which has established branches in all the points reached by the P. and O. steamship lines; the British Overseas Bank; the Anglo-Baltic and Mediterranean Bank; the Anglo-South American Bank; the National Bank of South Africa; the Bank of British West Africa, and many others.

#### *Government Service*

In order to take the fullest possible advantage of the facilities available for trade promotion and information, a separate department of the government was created in 1918, called the Department of Overseas Trade. This new department was formed by the British Foreign Office and the British Board of Trade jointly. It is responsible to both departments and maintains a field service of three kinds: (1) Trade Commissioners for the British Empire; (2) Commercial Counsellors and Secretaries in foreign countries, and (3) Consuls in foreign countries. The accompanying organization chart conveys a good idea of the activities of the new department.

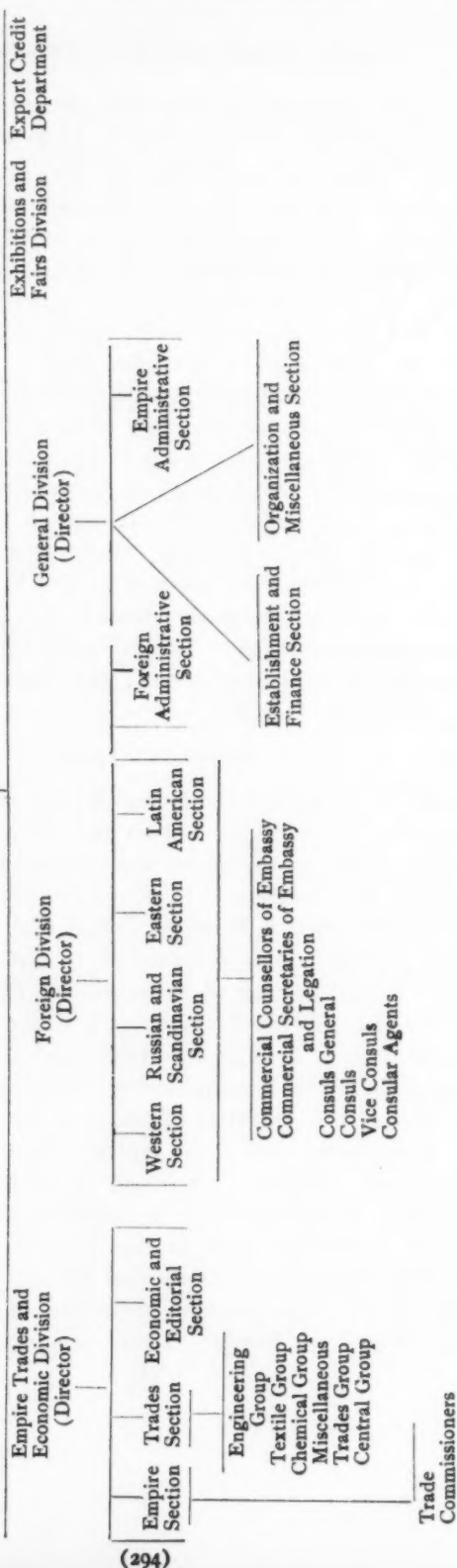
The department not only collects information but takes action in trade matters. Its power of action is subject to two reservations: When a piece of business becomes predominantly political it is handed over to the Foreign Office, and when special subjects such as commercial treaties arise they are put in charge of the appropriate departments of the Foreign Office and the Board of Trade. There are sixteen Trade Com-

# DEPARTMENT OF OVERSEAS TRADE

PARLIAMENTARY SECRETARY

COMPTROLLER GENERAL

DEPUTY COMPTROLLER GENERAL



missioners in the British Empire located in Canada, Australia, South Africa, India, New Zealand, West Indies and the Straits Settlements.

### *How Information is Distributed*

The most important channel of confidential distribution is that known as Form K. This is a system for supplying traders and manufacturers with information in regard to possible importers in certain countries of goods of British manufacture. The form contains a definite set of questions to consular officers which entail definite and short answers and provide the department with almost complete information with regard to all firms in a consul's district.

Over twelve thousand British traders have already been brought into contact with this form. The problem of distribution of the form was solved by cooperation with the Association of Chambers of Commerce of the United Kingdom and the Federation of British Industries. These organizations have undertaken the responsibility of communicating the information to every interested firm. The various firms who desire to benefit under the scheme have been doubly checked before admission, by their respective chambers of commerce, or associations, and by the Department of Overseas Trade. The form itself makes it easy for the chamber or the association to circulate reports only to those firms coming within the category of trades referred to in a particular report. Secrecy is obtained by a declaration that the information received will not be passed to any other firm. Form K is not intended to take the place of commercial travelers. It supplies information of a preliminary character which must be followed up by the firms who are interested. The Department breaks up the ground, but the traders themselves must cultivate it.

### *The Special Register*

More confidential and more secret is the next channel—the Special Register which is kept in the Department for the purpose of passing on to firms confidential intelligence of a more general scope than that provided under Form K. While Form K is confined to lists of firms in certain foreign countries, with relevant information relating to them, the infor-

mation supplied through the Special Register includes openings for trade abroad; reports on foreign competition; reports on various industries in countries overseas, and on general commercial and financial conditions. The reports on particular trades or markets, which are obtained from time to time as a result of special commercial missions, are also circulated to firms on the Special Register. When necessary, the reports are supplemented by particulars of foreign buyers, import duties, shipping service, and any other item which has an important bearing on the subject matter.

*Strong Advisory Council*

It is recognized that any organization for the purpose of fostering the trade and commerce of the country cannot and should not deal solely with economic opportunities abroad. Inquiries in overseas markets can only be properly directed and the result adequately utilized in the light of a full knowledge of industrial requirements and industrial capabilities at home. The ideal commercial intelligence department of any government must, therefore, depend for efficient working as much on a staff of experts conversant with home industries as upon well-trained commercial representatives abroad. The department has the assistance of a strong advisory council which includes Sir Francis Barker, of Vickers, Ltd., representing the Federation of British Industries; Sir Algernon F. Firth, representing the Association of Chambers of Commerce of the United Kingdom; Colonel Frank Wedgwood, Chairman of the Industrial Council for the Pottery Trades; Sir George A. Biddell, Chairman of the Newspaper Proprietors' Association; Mr. W. H. N. Goeschen, Director of the British Trade Corporation, and many others.

The Department of Overseas Trade receives from its commercial attachés and trade commissioners abroad information on foreign and colonial contracts, existing and probable future demand for specific lines of British goods; the extent and nature of competition and the best methods of meeting it; foreign methods of business, terms of credit, agency conditions, customs regulations and tariffs, regulations covering commercial travelers, certificates of origin, sources of supply, prices *etc.*, of trade products, shipping and transportation. The depart-



ment also supplies lists of names of individuals considered suitable to act as representatives or agents of British firms.

#### *Foreign Sample and Catalog Collections*

For a trader to compete successfully in foreign markets, it is necessary that he should know the goods which competitors are offering. The department has, therefore, formed a very extensive collection, which is being constantly increased, of samples of foreign competitive goods and commercial products. Over seventy thousand such samples are now available for inspection by British traders at the department's showrooms in London. The department has also collected over sixteen thousand foreign catalogs (including German and Austrian), which have been efficiently indexed under both articles of manufacture and names of manufacturers.

#### *Trade Fairs*

The department organizes fairs at which British traders have the opportunity of displaying their goods before buyers of all nations. At the best known of these fairs—the British Industries Fair—held during February and March, 1920, British manufacturers are estimated to have taken orders amounting to over ten million pounds sterling. Although in reality one fair, the British Industries Fair was held in three towns, London, Birmingham and Glasgow. The London Fair was organized by the Board of Trade, while the fairs in Birmingham and Glasgow were organized by the municipalities under the auspices and with the support of the Board. The three fairs were held concurrently, each fair representing a specific group of industries, and no one industry being permitted to exhibit at two fairs. In this way the foreign buyers were given an opportunity to see at one time an enormous range of British products.

The British Industries Fairs are not exhibitions. They are annual trade fairs to which admittance is restricted to bonafide trade buyers seriously interested in the participating trades, and admission is by invitation only. Participation in the fair is confined to British manufacturing firms whose principal works and head offices are situated within the British Empire and which are not controlled by foreign interests. Exhibitors are not permitted to exhibit goods other than those they actu-

ally manufacture. The result is that buyers who visit the fair know that no article shown on an exhibitor's stand can be purchased elsewhere in the fair, while the exhibitors on their side can rely on the fact that all visitors are trade buyers. So organized, the British Industries Fair is immeasurably more valuable to both exhibitors and buyers than a fair in which the same article may be shown upon many exhibitors' stands and where the visitor may spend much of his time in comparing the different prices at which it can be purchased. Another important item in the overseas trade-extension plans of the British Government is the proposal to send touring trade exhibitions to South Africa, Australia, New Zealand, Canada, South America and the United States.

#### *Government Scheme for Overseas Credits*

Up to the present time slow progress has been made by the British government's overseas credit scheme. Of the twenty-six million pounds authorized by Parliament for the extension of credits to impoverished countries, only about two per cent has been spent. The great hindrance so far to a wider use of the funds has been the fact that raw materials and foodstuffs are excluded from its operations. It would appear that the only practical use of the funds is in the covering of extraordinary risks, as the British banks are able and willing to finance reasonably sound export business.

The scheme originally provided for an advance of 80 per cent by the government of the exporters' costs. An amendment has, however, recently been made to increase the advance to 100 per cent, with power to recover as to 20 per cent in case of bad debts. The credit will run for two years, with power of extension in approved cases. Thus the traders' risk is now limited to possible loss of profits. Officials of the British Board of Trade attribute the previous lack of appreciation of the government's credit scheme to the fact that British manufacturers were crowded out with orders for customers at home and in the overseas markets who were in a position to pay on delivery of the goods. That being so, they were not anxious to seek trade where the customer was only able to pay for his goods in heavily depreciated paper currency, since if payments were based on the ruling rate of exchange this might show a

serious loss between the date of the sale and the receipt of the resultant remittance in London.

### *New Markets Necessary*

Now that manufacturers have satisfied the more pressing demands of those customers who are willing to pay in sterling, they are looking for fresh markets. In some trades the slackening of the home demand and the falling off in the requirements of the more prosperous foreign countries have resulted in an accumulation of stocks which can only be disposed of with difficulty and at cut prices. Concurrently, there is great need in certain countries of Central and Eastern Europe of the very articles of which there is a glut on the home market. Among the requirements of these countries may be mentioned rolling stock, agricultural implements, machinery, boots, clothes and other necessities.

### *The Countries Included*

The countries so far included in the scheme are Finland, Latvia, Esthonia, Lithuania, Poland, Czechoslovakia, Jugoslavia, Roumania, Georgia, Armenia and Bulgaria. The markets of these countries were before the war largely monopolized by German manufacturers, and many British traders are now endeavoring to secure a footing in these markets, provided they can do so without undue risk. All of these countries possess great natural resources and large and industrious populations, but they are unable to buy the goods they require for the reorganization of their transport and other industries owing to the depreciation in the purchasing power of their money. The Parliamentary Secretary of the British Board of Trade explained the scheme (as originally applied) as follows:

"A, we will say, is an exporter from this country; B is an importer in Roumania. A wants to sell to somebody in Roumania a machine which will cost, together with insurance, freight and commission, £1,000. If he cannot get credit through his banker, or in any other way and wishes to take advantage of this scheme, B would be introduced by his banker to the Export Credit Department. He will say that a man in Roumania is willing to buy his article for, say, £1,200, and is willing to put up a security through his bank in Roumania,

either in currency or in some other form of security which is satisfactory to our agents, and to repay the whole amount with interest within a period not exceeding three years. If the Export Department is satisfied by their own agent out there, they will pay an amount representing 80 per cent—they cannot go beyond that—of the cost price, including freight, insurance and commission, which is charged to the exporter in order to cover the expenses of the department, and any loss which the department may be involved in owing to bad debts. When the money is repaid to the department, as it comes in it will be paid in the proportion of four-fifths to the government and one-fifth to the exporter until the government's 80 per cent is paid off, and then the rest goes to the exporter."

#### *Largest Private Organization*

In the summer of 1916 it was seen that British manufacturers and producers required the coordinating assistance of a national association which would concentrate and weld together the efforts which each trade exerted through its trade association, so that manufacturers might be enabled to speak and act in a manner commensurate with their strength and importance. These considerations led to the formation of the Federation of British Industries. The support of the leading manufacturers and producers in the country was at once given to the new body, and it rapidly succeeded in establishing itself as the only organization which could claim to represent the views of the manufacturing section of the community as a whole.

In November, 1918, the British Manufacturers' Corporation—an organization of 300 British firms for the expansion of export trade—was amalgamated with the Federation. Today the Federation of British Industries is in direct touch with twenty thousand British manufacturers covering every British industry, and includes in its membership two hundred trade associations. The Federation maintains trade commissioners and representatives in Greece, Turkey, the East Indies, Spain, Portugal, Algeria, Brazil, Scandinavia, Italy, Holland, Australia, Canada and New Zealand; then there are correspondents in Argentina, France, Cuba, Mexico, Finland, South China, Japan and Egypt. While the Federation is a private organization, it maintains very close relations with the British Board of

Trade. Like the latter body, it also organizes expositions in foreign countries and in England, compiles an export register, which contains lists of its members in each industry and minute details of the lines handled by them. The Federation is governed by a Grand Council of two hundred and eleven members, which includes the leading men in all industries.

*Government Committees Recommend Combinations*

There is at the present time in every important branch of industry in the United Kingdom an increasing tendency to the formation of trade associations and combinations, having for their purpose restriction of competition and the control of prices. Many British associations have already been formed which deal with raw materials or intermediary products, and there are others which have to do with finished goods. These associations occupy a prominent position in the iron and steel, ship-building, electrical, chemical, soap, tobacco, silk, salt, cement and textile industries.

Sir R. V. Vassar Smith, Chairman of Lloyd's Bank, expressed the opinion of the British bankers regarding this movement in a speech in which he declared that

the day of small industries on individual lines is gone. Our manufacturers and traders must organize for united effort. This will have the closest bearing on questions of finance. An unstable unorganized industry is the despair of bankers. An industry organized on large lines has seldom lacked financial support in England.

The various committees of the British Board of Trade, formed to investigate specific trades, all urged the necessity for powerful industrial combinations. The conclusions reached by these government committees were admirably summed up in the final report presented to Parliament of the Committee on Commercial and Industrial Policy After the War, in which we find the following:

From the evidence before us it appears that British manufacturers and merchants as a class are not disposed to doubt their ability to maintain and extend their business, if they are left untrammelled; there is, of course, a real danger that consolidation and combination may not only tend to diminish that individual initiative and enterprise to which the progress of British manufacture and industry has been largely due, but may also be carried to a point at which it becomes inimical to the general interests of the country



as a whole; and in some branches of production and distribution there may be, and probably is, little need for any substantial changes in organization. Nevertheless there is a considerable body of opinion, with which we are in general agreement, that the individual manufacturer and merchant will find it increasingly difficult to keep abreast of technical progress and to meet effectively the competition of powerful foreign consolidations and combinations, operating as these do under a single guidance and with great financial resources. It is in our view necessary that in some important directions the individualistic methods hitherto mainly adopted should be supplemented or entirely replaced by cooperation and coordination of effort in respect of (1) the securing of supplies or materials, (2) production, in which we include standardization and scientific and industrial research, and (3) marketing. We approve of combinations amongst manufacturers. All such combinations should, where necessary, be legalized, so as to be enforceable between members. We think that combinations, to be useful to the trade of the country, should be upon lines aimed at coordinating production, promoting efficiency, economizing waste, promoting home trade, facilitating export trade, and unifying selling arrangements. The ideal at which trade combinations should aim is the maximum of production at the minimum of cost.

#### *A Broad-Gauge Policy*

Our success in taking the place that rightfully belongs to us in the markets of the world will depend largely on our readiness to follow a broad-gauge policy. The foreign field must no longer be regarded as an outlet for our surplus products or as a convenient cemetery for our manufacturing mistakes. Foreign markets cannot be neglected when domestic demands are attractive and then recaptured just when they are needed.

In this connection—and especially at this time—it is significant that none of the British combinations of manufacturers formed principally for export trade, have in any sense let up on their foreign campaigns. They have been cementing their foreign connections during the time when it has been impossible to fill orders, and with great vigor and determination have been planning to make the British-controlled enterprise and the British-made product more widely known over the world than before.

They have found it just as difficult as American exporters have found it to get cash from European buyers, and have suffered more intensive production handicaps during the last five years than have American producers. But the Britisher has learned by long experience that periods of economic depression are good times in which to lay the foundation abroad for future business, and he has learned to wait.



## THE ORGANIZATION OF THE FOREIGN SERVICE OF OUR GOVERNMENT

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**A**FTER the great soul-stirring public demonstration which swept us into the World War, it seems strange—indeed incredible—that any of us can continue to have any abiding faith whatever in a national isolation—in *our* insularity. Unfortunately, however, we have daily evidence that most of us need to readjust our ideas and be convinced by a war's experience that the well-being of every nation may depend upon its foreign relations—or, to be more specific, our national welfare may be commensurate with the magnitude of our foreign trade. Until our people has a fixed opinion in this regard, there can be no proper appreciation of the importance of any foreign service our government renders.

The necessity of reorganizing our foreign departments is so impressed on the judgment of their respective officers themselves that early modifications in the present organization can be anticipated. But, if these changes are to be more than merely partisan expedients and therefore temporary, they must be shaped by a determined public sentiment. Public opinion must certainly be taught to appreciate

First, the supreme need of a foreign trade;

Second, the relation of government to it; and

Third, the nature of present defects in our government service in order to *legislate* the remedy.

We in the United States are not alone in manifesting dissatisfaction with governmental service abroad. Even Great Britain, always a leading foreign trader, has recently instituted marked changes calculated to better promote such trade "under new world conditions" which part of its public opinion still considers an experiment. France and Italy have reorganized and expanded their respective services in certain essential features and Germany, which long ago disapproved its pre-war

foreign service, will doubtless seek its future foreign trade actuated by principles differing from those which, under the Kaiser, contributed to such a world-wide antagonism.

It should be noted that present plans of reorganization acknowledge the principle that trade forms the basis for *every* international relationship—is, in fact, its *raison d'être*. From which it is to be inferred that much of the difficulty which now militates against the usefulness of *our* foreign service is due in no small part to the preeminence given diplomatic procedure in the State Department. Is not that department too much concerned with the promotion of "secret diplomacy", almost to the exclusion of consideration of trade? When, as a matter of fact, its foreign business should be altogether collateral to building up a fair, honest commercial reciprocity. Our perspective should be reversed; Foreign Trade, not Diplomacy, belongs in the foreground, while Diplomacy stands in the background ready to support and protect Foreign Trade and to act when such Trade meets foreign interference. Instead, Trade is subordinated—scorned, perhaps, as mere "dollar diplomacy"—in the ordinary calculations of the State Department, with the inevitable result that lack of respect for commerce between nations induces a frequent neglect of our best interest. As a fair example in support of our contention, the latest case disclosed to our personal knowledge deserves mention; it is not an exception but accords with a condition of service which actually retards our national progress:

November 13, 1919, our Consul General at Paris wrote the Director General of the French Customs suggesting the exemption from duty of catalogs and other trade printed matter of the United States sent to that consulate.

November 24, the Director General replied in effect that such exemption would be granted in return for similar treatment of publications destined for the use of French consular officers in the United States—a plain proposition for reciprocity.

December 30, our Consul General wrote the State Department explaining the proposition.

February 19, 1920, the Second Assistant Secretary of State asked the Secretary of the Treasury for advice as to the law and regulation in the matter.

March 16, nearly a month later, the Assistant Secretary of the Treasury, replied to the Secretary of State by reference to paragraphs in the statute, which must have been familiar to every official of any importance in the State Department, and

August 24, more than five months later, the State Department advised our Consul General at Paris of the opinion of the Treasury Department.

In short, this matter of considerable importance to American business men who are maintaining or attempting to develop markets in France consumed *over nine months* after the original inception.

The theory has been advanced that the weak coordination of administration between the State and Commerce Departments arises among the rank and file and from a lack of understanding in each department of the distinguishing features of the other's function; it has been suggested that this difficulty be overcome by a wise interchangeability during advancement from position to position in the two departments so as to evolve a "proper appreciation by the commercial agent of the claims on the diplomat and, vice versa, similar appreciation of commercial needs by the diplomat himself".

To make an organization effective, first consideration should be given to the principles that shall control. This was the course taken in a presentation on "The Reorganization of the Foreign Service of our Government" before the Seventh National Foreign Trade Convention recently held at San Francisco—a presentation which was endorsed by a joint committee of the National Foreign Trade Council, the American Manufacturers' Export Association and the National Civil Service Reform League. Every argument pointed a plea for the education of our public opinion because under our form of government such opinion, when fixed in its determination and then jealous of its prerogative, can and will assert itself in producing the necessary federal legislation. My effort today offers no modification of the thought expressed at San Francisco; it seeks rather to amplify and confirm such thought. I sought to prove there that under the pressure of events public indifference conspires seriously to weaken the integrity of such service as we have which is imperatively required to form the nucleus of our reorganization. Congressional failure to pay

salaries on a living basis makes it difficult for the government, in competition with private enterprise, to retain much of the fine talent it has developed by years of opportunity and experience. To quote somewhat at length from the above address:

"The whole success of our organization awaits our ability to create a career—such as to attract the intelligence of our land and hold it enthusiastically for life to the privileged performance of a patriotic service that shall not entail the great and sometimes impossible sacrifice that now obtains. The present flood of resignations, depriving the foreign departments of the Government of capable men trained by special experience, furnishes us much food for thought. The present emoluments and prospects are not only inadequate, they are unfair and unreasonable. There should be provided immediately salaries commensurate with the duties performed, with prospects of promotion and pensions to incite at all times diligent attention and initiative. Business executives are sensible to the extreme difficulty of organizing a personnel chosen for its special fitness to perform, and the ease with which such an organization can be broken and dissipated. They know too well that the destruction of manufacturing plants and equipment can be quickly remedied while the dispersion of the intelligence and skill that make such plants productive is indeed irreparable."

Contentment and satisfaction in position, responsibilities, pride of accomplishment and prospects are the requisites of such a career if it is to command the standard of intelligence we should insist upon. Pride cuts a large figure and we should feel the need of having abroad as representatives of our beloved nation picked men of high ideals, trained competently to meet any international emergency that can affect us. The prospects of promotion into positions of increasing importance, should inspire a feeling in the minds of the personnel that the rewards of their good service extend even unto ambassadorships. We need to amend our views in this latter respect.

Most of us believe that efficiency of service depends on civil service regulation. Such regulation now protects all positions below the grade of ambassador and minister, who are exempt because they are the personal representatives abroad of the President—a temporary executive. By comparison with

other nations this exception has proven an unfortunate weakness in our diplomatic service, although it appears at first sight to be inherent in our form of government.<sup>1</sup> But it will be different, when the President has a large, highly trained personnel, from which to choose his appointees. Under such circumstances, no President could successfully withstand the public criticism that would assail appointments which disregard this advantage; particularly when the nation, jealous of its reputation abroad and convinced that reputation reflects on the character of foreign trade, will not suffer uncomplainingly any but demonstrated fitness to occupy high commissions.

No career in government service is so beset with perplexities that invoke the exercise of high intellect as an active service abroad on behalf of a nation's need. It requires quick adaptability to new environment with a constant reference to possible misunderstandings that arise from racial differences in temperament, thought-methods, moral training and hereditary prejudice. It requires a mind with a vision to excite the admiration and respect of our foreign cooperators in the promotion of peace and good will. Such accomplishments wait on education, and an education specially addressed to the cultivation of just such qualities of mind and heart.

As a nation we have publicly proclaimed our faith in democratic ideals that forbid government without the consent of the governed, a state that invokes the evils of military domination—principles we so conspicuously enunciated during and since

<sup>1</sup> A recent statement, issued by the Committee on Foreign Service of the National Civil Service Reform League, advocates the entire elimination of political consideration and the application of the merit system to all appointments and promotion in the foreign service. The Committee publishes in this connection a comparative table showing the diplomatic experience of the representatives of France, Great Britain and the United States at the important European posts when the European war broke, which presents a rather startling commentary when we consider all that may now be involved in it. Whereas it shows that diplomatic representatives of the United States, with one exception, had no previous diplomatic experience, such experience of other representatives ranged from ten to thirty-nine years. Your Committee opines that public sentiment will regulate this with as reasonable satisfaction as it now does in other presidential appointments to technical positions in the governmental service and eventually the Senate can be relied upon to protect the nation's need in this particular. (1919 Report American Manufacturers' Export Association, page 236.)



the war. Excellent precepts, without an example! With fine inconsistency we regularly submit to liberal appropriations for military purposes while we practice parsimony in dealing with peace measures. When we reflect that appropriations for our army and navy projects exceed over sixty times those on behalf of peace service, we should stop to consider whether it is not high time to trust the arts of peace to forestall the prosecution of war. When one digests the disclosures of the many books of sundry colors, so promptly issued after August, 1914, by each warring nation in order to prove it a victim of circumstance, he cannot but wonder whether a wiser functioning under a better cooperation of the foreign departments of said nations might not have actually prevented the great war. Is it not true that, in general, the extinction of the initial spark of misunderstanding, which is the stern duty of every foreign representative, is the great preventive of war's conflagrations? Again is indicated the great need of a highly specialized education.

At San Francisco the hope was expressed that some time our federal government will have for peace promotion a third educational institution as well qualified to fulfill its destiny as the academies at West Point and Annapolis have been in the intensive training of our youth for war. These academies have long been noted for their preeminence in the educational field and furnish a fine demonstration of the possible efficacy of governmental administration in the development and maintenance of high efficiency in a special service. To profit by this example there should be established, under similar government auspices, a Foreign Service Academy to operate in principle on behalf of our foreign departments and peace, exactly as West Point and Annapolis do for the army and navy on behalf of war. Analogously, graduates of the Foreign Service Academy, in return for an extraordinary mental discipline provided by the nation contract to enter government service for a stipulated term of years with the ordinary expectation that thus they begin a career for life.

Reference was made at San Francisco to certain admirable reports submitted to Congress by ex-Secretaries Lansing and Redfield, and many of the proposals set forth were suggested by the disclosures they made. For example, special attention was directed to the serious absence of team-work as indicated by



the attempted independent operations in our foreign service of fourteen distinct governmental departments, which, according to Mr. Redfield, "worked separately, each in large part unaware of what the other is doing". A condition, both ridiculous and incredible to any business man who has been an organizer! He will know how seriously his foreign commerce is thus jeopardized and he will prescribe, as the one logical remedy, the combination of all activities of the government abroad under one supervision. He will insist on reconciling present fine distinctions between the State and Commerce Departments which hinder the best service in what both should recognize as a common cause. He understands the wisdom, by some practical interchangeability, of fixing in the minds of all agents abroad, and thereby often removed from immediate supervision, a full knowledge of the effect each has on another's exertions in the public interest.

In again directing attention to this condition I bear in mind the earnest effort in coordination made at Washington by means of the so-called Economic Liaison Committee initiated by the Secretary of State in March, 1919. This committee attempts cooperation by agreement, which, experience has shown, will operate only so long as it suits the individual ideas of the members of the committee, who are subordinates in their respective departments. This latter circumstance makes their deliberations little more than expert surveys, the findings of which will usually be too slow for commercial effect. As already intimated, the one efficacious remedy is to consolidate administration in order to fix responsibility and bring all discordant elements under one rule of procedure.

We need one Foreign Service Board with broad powers of direction, supervision and appointment as well as to act in an advisory capacity to the President and Congress. This Board should contain the Secretaries of State and Commerce as ex-officio members and a sufficient number of appointees of long overlapping terms of office to insure neutralizing the possible partisan attitude of ex-officio members; for obvious reasons, the Secretary of State should be chairman. It is to be hoped that this suggestion will not be dismissed on the ground that it savors of bureaucratic government. It is rather government by commission, which has proven unusually successful else-

where in occupations resembling our foreign service, where the coordination of many functions is the controlling desideratum. It has been proposed also to meet the situation by providing another Cabinet officer—a Secretary of Foreign Commerce—to take charge of our government's relations to foreign trade. This proposal fails to meet the greatest difficulties now extant, in that the State Department will even then continue to inflict on trade promotion and information the influence of that slow deliberation watchful diplomacy entails.

In closing I should be derelict to my subject if I failed to sound again a vigorous protest against a practice that must cease or our reorganization fails. To quote again a former address:

“Our failure to provide official, residential and administrative quarters abroad forms a shameful commentary on our national perceptions and reflects an indifference we may not feel toward foreign nations whose friendships we seek. Our good sense in this respect might be everywhere impugned were it not for an extraordinary test of eligibility our Presidents have been able to apply in making appointments. To impose on the private wealth of individuals the burden of supporting our position abroad is as unseemly, inconsistent and absurd as it is unjust to everybody concerned, both the President and his appointee. Such a course should humiliate our national pride. Any reorganization plan demands the adoption of a proper policy in this regard, for otherwise we cannot determine any consistent schedule of salaries until we eliminate from the calculation every item of expense necessary to uphold our national dignity and prestige.

“This in effect, and more, has been said time and again without making much impression, simply because we have never had a decided public appreciation in this country of any normal need beyond the limits of our commonwealth.”

## PROFESSIONAL TRAINING FOR LEADERSHIP IN FOREIGN TRADE

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THERE was a time when Americans held undisputed leadership in foreign trade. That was in the golden era when the clipper ships of Salem and Marblehead carried the American flag to the Orient and to lands south of the equator and exchanged American goods for exotic products. The energetic young men of the Atlantic seaboard looked to the ocean for their careers and by their ability and industry enriched themselves and brought prosperity, if not affluence, to Yankee ports. They learned their business through the direct method—in the school of experience, under the guidance of shrewd and far-seeing men who had personally developed the ocean trade. They were masters of every phase of the business, for their success depended upon their own skill; their responsibilities could neither be transferred nor avoided.

We delight to dwell on the exploits of those glorious days, but at this time we may allow ourselves to consider them only to see what we can learn from them. We are concerned not with history and legend, but with precepts and pedagogic principles. And we can learn much from a study of the ways of the clipper merchants—much that may help us to map out our college programs and direct the study of modern merchants.

The foreign trader of the early nineteenth century began his career as a boy; the community into which he was born was dependent for its very existence on overseas commerce and nature all but placed the boy in the fore-castle, from which his innate qualities for leadership soon put him on the quarter deck. He had no assistance from chambers of commerce or international banks, little help from large business houses and slight backing from his government; he had to rely upon his own ability in selecting his cargo for export, in transporting it to the antipodes, in finding his market and exchanging his goods for goods to be sold at a profit in America. No cable

service enabled him to seek advice in advance or refer difficult questions to the home firm. He must himself decide all matters and must therefore be a real master of every detail of his profession.

One reason for our retrogression in foreign commerce has been that so few of our present generation have looked upon it as a life-work or have been able to acquire the complete professional knowledge that is so essential to success. They have seldom begun at an early age and devoted themselves to the study and practice of foreign commerce. In short, they have not become masters; there have been too few leaders and too little opportunity to get training for leadership. That deficiency we are now striving to overcome. The leaders in foreign trade, gathered at the seventh national foreign trade convention in San Francisco last May, in the final declaration of the convention spoke as follows regarding scientific educational preparation for foreign trade:

Only in such measure as we equip our business agents and official representatives with accurate knowledge of foreign markets, with practical knowledge of foreign languages and with a wide knowledge of the economic, social and political conditions prevailing among the peoples of other lands, may we expect them effectively to represent us in official life or successfully promote the expansion of our commerce.

The convention, therefore, emphasizes the need of scientific educational preparation for overseas commerce by which the youth of the land may be fitted to cope with, and solve intelligently the problems growing out of our increased participation in international affairs. Such training is an essential and fundamental factor in any successful foreign trade policy.

Many agencies are taking part in the effort to provide professional training. The government is publishing books and documents and suggested courses of study. Influential social and commercial organizations, like the National Foreign Trade Council and the Academy of Political Science, are procuring and publishing material of inestimable value to the student. Great banks are conducting classes for their own employees and issuing valuable literature to help others. Scores of magazines and newspapers are devoted either entirely or in part to advancing the interests of the foreign trader. And last, as is usually the case, our schools and colleges have realized something of the need, and are offering courses of widely differing value, but all intended to make available some degree of training for the young man who turns to foreign commerce.

If we are to have professional training on a par with that for other careers, the place for it is in the schools. That is the custom of America from which we cannot well depart. The banks and business houses may continue to give specialized training to their own employees, but they have a right to ask that the fundamentals shall be taught in the schools and colleges which claim to provide for the educational needs of the generation. Recognizing this fact, there has been a general attempt to meet the demand, but the schools have found the problem a difficult one. They have not known just what to teach nor where to find the teachers, and in consequence many of the courses of study might remind one of the optimistic suggestion of the ship-wrecked sailor, "If we had some eggs, we could have some ham and eggs, if we had the ham." Lacking the empirical ham and the pedagogic eggs, the programs presented by some institutions have not provided nutriment sufficient to arouse unbounded enthusiasm. The schools, I hasten to say—for I am a school man and jealous of the good name of our institutions of learning—the schools are not to blame. They could not make bricks without straw. They were like ships sailing in the fog with the hope of being saved from accident rather by the beneficence of Providence than by virtue of their own efforts. They lacked even the compass and the chart and but dimly realized to what port they were bound.

A comparison of the courses of study in foreign trade, as presented in leading American colleges and universities, shows that instruction is being given in methods of selling American goods abroad—something of advertising and creating a demand; that the paper-work—foreign trade technique—has an important place; that foreign exchange and foreign credits are studied. There are courses in ocean transportation, methods of shipping goods, in foreign tariffs and foreign markets. All these things are, of course, necessary. Some opportunity is given to study foreign languages, although here the courses are often glaringly superficial. Our American business men are weak in languages and that weakness too frequently is fatal. A few days ago I saw in Havana a circular issued by an American automobile manufacturer. It was a beautiful specimen of the printer's art, but its language attracted much more atten-



tion than did its artistic quality. The automobile was designated, on the cover, as "El Carro de Lujuria"—obviously an attempt at calling it "The Car of Luxury." One need only consult a Spanish dictionary and note that "lujuria" means, not *luxury*, but *lust*, to realize somewhat of the effect of that label on the mind of the prospective customer.

Americans are not alone in their faulty use of a foreign language; we are all familiar with the bad English sometimes used by foreigners, but it seems to be particularly difficult to induce an American to believe that facility and felicity in the use of Spanish or French or Swedish is of first importance for the man who desires to deal with the people speaking those languages. Such facility cannot be acquired in a course of twenty lessons without a master, nor even in a college course of two hours a week for one or two years.

If I may criticize the courses of study generally offered in colleges, I would point out that they largely look in one direction—that of selling American products; they give little thought to the other and equally important side of the business—the purchase and importing of foreign goods, without which *trade* cannot exist.

But the most serious lack lies in the failure to provide the "accurate knowledge of foreign markets, practical knowledge of foreign languages and wide knowledge of the economic, social and political conditions prevailing among the people of other lands", to quote from the final declaration of the foreign trade convention to which reference has already been made. A brief study of foreign markets does not give this wide and practical knowledge which is recognized as a necessity. The college course of study for students of foreign trade should present much more of history, literature and foreign political conditions than is yet offered in any American institution. We are woefully ignorant of the history and literature of other lands. Except at points where foreign countries have come into direct contact with the United States, we have in our schools ordinarily ignored their history if not their very existence and too frequently our textbooks have considered these points of contact only with the purpose of claiming for the United States a degree of glory and of ability which is not always recognized by the other party to the contact.



Our young men cannot become leaders in work which involves at every point contact with other peoples unless they are in every way familiar with the manner of thought as well as the manner of doing business which prevail among other peoples. Much might be learned from the immigrants in our land, if some method were provided by which our students should come into personal relations with these representatives of foreign countries although that, of course, could not be equal in value to a study of the foreigner in his own home.

The obvious fault of nearly every school course—that it lacks authority and accuracy in content—I pass over, since that is a condition which is being corrected as rapidly as competent instructors can be obtained; they were almost non-existent even five years ago. Today, not many, but a few of our best college instructors are in the departments of foreign trade.

Professional training is properly the work of schools, both of secondary and of college grade, but we may profitably consider the methods of training adopted in the largest and most successful business houses engaged in export and import. Many of these houses have organized classes and courses of study more than equal to the offerings of the average college or school of commerce, but in every case they recognize that the training cannot be complete until the employee has had opportunity to live and do business in the particular foreign field for which he is being trained. After a period of intensive study at home, the young man goes to a branch house across the ocean and there serves a real apprenticeship. He is encouraged to mingle with the people, to learn their language colloquially, even to marry—though Americans have never been as willing as are our old competitors, the Germans, to go to that extreme. In every foreign commercial center you may find a few resident Americans, representing the few great American business concerns which have become as important factors in the business of the world as in that of the United States.

It has been thought that the schools could not offer so complete a training, but the schools are not to be so surpassed in their natural function. Educators have begun to plan programs which combine the class-room courses with the plan of apprenticeship and foreign residence. In some cases, American colleges have affiliated themselves with foreign institutions and

worked out plans for an interchange of students, but there is so little similarity between the higher educational institutions of the United States and of other lands that this plan, full of interesting possibilities as it is, has not accomplished much. The very attempt to establish such affiliations may be considered an indication of ignorance of foreign conditions, since the programs and courses of study of the institutions in different countries make a common course well nigh impossible. To be of practical use to the American student, special provision would need to be made for Americans in foreign schools or for foreigners in the American schools.

One group of teachers has attempted to organize at Panama an international school where students from North and South America may meet for study of Pan-American trade. This experiment is yet too new to be given more than passing mention.

At Boston University we have taken a more decisive step for the professional training for leadership in foreign trade, particularly Latin-American trade. Boston University has established in Havana, Cuba, a complete college of business administration as a branch of the College of Business Administration in Boston. The branch in Havana and the college in Boston offer identical courses of study leading to the same degree; they are under the control of the same faculty and the same trustees; and students may transfer from one to the other without change of course or loss of time. In Boston, the courses are, naturally, offered in English, except that a number of elective courses are given in Spanish, largely for the special benefit of students who are preparing to transfer to Havana for a year or more; in Havana, on the other hand, Spanish is the medium of instruction, although special emphasis is laid upon the study of English. An American student may spend his first year or two years in Boston and then may complete his course in Havana, having the opportunity to learn the language where it is native and to live among the people of a foreign land. A Cuban student may in the same way spend a year or more in Havana and may then go to Boston to complete his course. In either case, the course includes several subjects of special preparatory nature, and calls for a period of actual business practice under the supervision of the college before the degree is granted.

The success of this venture, which is enthusiastically supported by Cuban business men, educators and government officials, points the way to a world-wide university with branches in many lands. Already Boston University has planned another branch in China—a country that we ought to know far better than we do. Steps have been taken to go to other countries, so that the student will have a wide range of choice for his foreign residence and may, indeed, include two different countries in his four-year course.

The student who is specializing in foreign trade with the expectation of transferring to one of the foreign branches of the college for a part of his course, takes in addition to the standard foreign trade subjects much more complete work in the foreign languages of his specialty and a detailed study of the history, literature and general economic conditions of the country to which he is going. With that as a background, he should be able in a year of residence abroad to acquire a sympathetic familiarity which will stand him in good stead in all his dealings. Through the specializing for trade with one country, he may seem to be narrowing his field of activity, but that is not the fact. Once break through the egotistical shell which so commonly surrounds our people—once bring fully the realization that even in one other nation there are men of ability and honor whose customs, although different from ours, are by no means to be ridiculed—once let our chauvinistic young men understand that they can really learn something from foreign peoples—and that part of their education will not cease until it has included the important countries of the world. Japan may be more different from Italy than Italy is from the United States, yet the young American who has lived for awhile in Italy and gained some of the lessons which must be gained from such experience, will have a closer appreciation of Japan and of other foreign lands than would be possible had he never been beyond the borders of America.

Americans of the present generation need to learn that America, though the land of the brave and the home of the free, is not in all things superior to every other land. As a people we suffer sadly from megalomania—perhaps from megacephalia. I fear that our participation in the World War has not reduced this tendency. Nothing is more enlightening than

residence abroad; travel is helpful, but the tourist sees but little; a considerable period of residence among people of a different nationality is necessary. Perhaps our foreign commerce has been retarded more by the unpardonable assumption of superiority on the part of untraveled Americans than by any other one factor. If we are to train our young men for leadership, we must send them abroad, and how can that be better done than to include a year or more of foreign life in their college course?

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## EDUCATIONAL TRAINING FOR FOREIGN TRADE

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IT is not possible in this brief discussion to go into very much detail as to some of the things that have been borne in upon me as necessary to consider in preparation for foreign commercial service. These are embodied in several publications. There have been too many "first aid to the ignorant" courses in foreign trade that do not for a moment constitute professional training. A "first aid to the ignorant" course is good as far as it goes, just as a course in hygiene is good to teach you when you need a doctor—but most people wait until they have the pain, anyway, before they consult the doctor. But for the profession of commerce abroad, it is quite necessary to have professional training of a professional grade. In approaching this, there is some confusion in the minds of many people, because there are several classes of foreign-trade workers to be considered. The first class is the class of junior clerks at home, then the higher desks at home, and then the graduation into actual foreign service, which includes a very thorough cultural study not of the whole world with all its languages, but a specific, thorough-going study of a comparatively small part of the world, through which the individual will learn enough about that particular part of the world to make his knowledge of marketable value, so that employers will be willing to pay him for that service, just as you would pay a physician for his service and not some one who had a course in bandaging during the war.

When we come to training for the government foreign service, it seems to me that if we follow the army and navy plan too far, or begin it too early, we are going to lose that contact with the world that is absolutely essential in all commercial foreign service. I am still a little doubtful as to how this should be worked out. But I believe that there can be worked out a system of scholarships divided among the states, much as the

scholarships at West Point or Annapolis are divided. These will be given to meritorious students in such institutions as Georgetown or Boston University and a very few others that have coordinated scattered courses and made a real *school* of foreign service. Such scholarships will mean that such individuals are sent to a higher college or university of post-graduate work at Washington rather than to an academy of very young students such as West Point or Annapolis. Probably work in the Executive Departments may be carried on at the same time.

I used the word "college" there, thinking of the War College. The difference is that between the War College and West Point. Otherwise, I am afraid that we will cultivate a certain kind of "snobbism" that is not entirely suitable to foreign trade relations. We might as well speak plainly about it. The great criticism of some diplomatic secretaries—not all of them—is that when they get out of college their wealthy fathers don't know what to do with them. They have lots of money, they are nice fellows and all of that, so they are put in the diplomatic service as secretaries of the fifth class. We want to avoid that system because foreign commercial service presupposes a considerable contact with the business world—not the social world.

That brings up the question of how pure and simple trade promotion, as such, and a diplomacy of negotiating trade treaties can be linked up together. It seems to me, after having watched this through at least twenty years in one part of the government service or another, but primarily as a business man abroad, that trade promotion is a thing apart up to a certain point and that diplomacy is a thing apart up to a certain point. But there are certain negotiations in which the two go hand-in-hand, one helping the other.

Now no firm would ever believe for a moment that they could get business if they turned the sales managership over to the credit man; and if they turned their credit business over to their sales manager they would become bankrupt. We have a parallel situation as between the trade promotion of the Department of Commerce and the diplomatic negotiations of the Department of State. That might be exemplified also a little further by saying that, *diplomacy* means caution, secretiveness,



and the necessity to take plenty of time, because a slip in diplomatic relations is extremely difficult and unpleasant to remedy. On the other hand, *trade promotion* is not keeping something back and being diplomatic about it; it is telling it as quickly as you can. Those two things are incompatible in the general run of one service. Trade promotion means "tell it quickly", and diplomacy means "don't tell it at all, or at any rate, wait a long while"—and both are necessary. This being the case, I do not believe the two can be consolidated in one department. The two are now coordinated by a sort of "understanding made law", that has been worked out gradually through personal contact and much hard work among several individuals of the two departments. Also, all the government foreign-trade interests have been brought closer together through the Economic Liaison Committee of which I am the second chairman; the Foreign Trade Adviser having been the first chairman. Mr. Maitland Dwight, formerly of the State Department, was for some time the very capable secretary. It meets in the Department of State. In that Committee we eliminate any tendency for more than one department to investigate similar things. I believe that we could carry through a few minor adjustments of the harness and bring the team-work to fruition, and in order to keep the team pulling always together in double-harness and taking the coach of state along the high road of progress, as has been already suggested, we should have some sort of a general staff to coordinate the two.

## EDUCATIONAL TRAINING FOR FOREIGN TRADE

RICHARD S. HARVEY

Georgetown University Law School, and Foreign Service School

**A**S the representative of that half-century-old institution, the Georgetown University Law School, and that young but vigorous off-shoot of Georgetown University—The Foreign Service School, I want to describe the origin, record and field of effort of the Foreign Service School, with which I am connected as lecturer in certain branches.

No doubt you are familiar with the very practical way in which British youths during numerous generations have prepared themselves for entrance into world-trade. It consists for the most part in travel and residence in foreign lands—more particularly in those countries where the future course of trading will occur. After a sojourn abroad covering a series of years, their system calls for a return to the home jurisdiction, and entrance into active membership in the firm. In effect, this employment abroad is a period of apprenticeship, preparatory to the responsibility of managing some department of overseas trade; and the practice no doubt has served its purpose well, if we have regard to the results as seen in the extent of the trade which causes the English flag to appear frequently in most seaports in all parts of the globe.

German procedure involved another method of approach to the same goal; and we must admit German thoroughness and efficiency were prolific factors in producing means for stimulating and maintaining profitable commercial interests in many lands. At the time when the World War cast its darkening shadow over the world, Germany had captured a large portion of the trade with the republics of South America, and numerous fleets of merchant steamers were busy in transporting wares from the Fatherland to Africa, Australia and the Far East, not to mention Germany's best customer, the United States. The system employed to produce the technical and versatile skill required to build up and retain this world-encircling commerce was in many ways distinct from that in

force in the British Isles; though, indeed, each involved a residence abroad as a prerequisite for employment in the home office. The German system was characterized by an intensive training in languages and procedure entering into foreign trade; but (unlike corresponding English youths) candidates for preference and promotion into partnership, were expected to acquire a preliminary acquaintance with the essentials of their calling by attendance at one of the excellent foreign-trade schools maintained at public expense in the educational centers of the Empire. The University of Berlin is reputed to have offered to students of world-trade, options of 100 separate courses; and so thoroughly was the educational field covered, that in addition to various dialects of every modern tongue, there were afforded opportunities to become proficient in the Baku language of Central Africa—a language without an alphabet, and consequently not yet reduced to written form. As a result of this requirement of a broad, general foundation as the educational condition precedent to entrance into a career in foreign trade—German traders were exceptionally skilful when seeking to ingratiate themselves with consumers of manufactured wares in foreign fields; and it was by no means an uncommon event to find in this mercantile agent a graduate of a university, and a person well equipped to touch upon literary or scientific themes, or upon subjects in philosophy we do not usually regard as even remotely associated with things commercial—"in a practical world".

The American candidate for cadetship in the field of overseas trade was under a serious handicap through non-existence of either system in the United States, up to the period of the World War. The carrying trade by water routes was so exclusively in the hands or under the control of foreign persons and interests, that few American youths could obtain entrance into that sphere; and it necessarily followed that deep-sea navigation was for them an almost forgotten calling, excepting only among persons associated with the coastwise trade. The same influences existed in the foreign mercantile side of all salt water traffic; and there, too, our American youths found themselves crowded out of a useful and profitable vocation—prohibited from entering upon careers where formerly citizens of the United States had gained fortunes (and also fame) in the period of the redoubtable Yankee clipper ship.

But it was not alone in the sphere of actual experience (perhaps the best as well as the most effective school) that the American student of foreign-trade practice and procedure found the door of opportunity closed and barring the way; indeed no adequate provision for courses preparatory to entrance into foreign-trade service was anywhere to be found in the curriculum of our colleges, universities and technical schools. Something creative and nerving was called for, if American foreign traffic in its various forms was to revive, and again become an important factor in world-trade; but in what quarter were American youths to look for such encouragement and aid, when periods of actual experience abroad or of anticipatory solution of those problems per study and application (the English and German methods)—were alike unavailable? How *could* this intricate and baffling problem be solved?

The difficulty indeed was great, and apparently insurmountable; but as an aftermath of the Great War that obstacle has melted away and disappeared, and we now possess at least one institution which affords instruction and practical experience in proportions suitable for student use. Thus there are again provided opportunities for careers in American foreign trade. In this connection I am referring to the Foreign Service School, the most recent feature of the general course of instruction carried on under the general authority and charter-rights of that more than century-old institution—Georgetown University.

In view of this gap in our educational system, as it existed prior to 1914, numerous demands for young men qualified to occupy positions abroad in public and in mercantile life were perforce of circumstances left unfilled, with the result that the demand for something formative and productive in way of education for foreign service, became increasingly insistent. As the war progressed, Hollanders and other foreign citizens or subjects were grafted upon the stem of our private commercial system; and until that stage was reached where the United States actually entered into the conflict and became an active belligerent, numerous German subjects found employment in the foreign branches of American banks. This condition at best was barely tolerable; and with the declaration of war upon

Germany, the demand and slogan "Place only Americans on guard!" became insistent and imperative. In the public service the need had been very great; but that want had in an imperfect manner been satisfied by drafts upon other departments, *i. e.*, drafts upon those divisions of our government not directly concerned in war-time activities, but yet equipped with a certain proportion of persons skilled in dealings in foreign business and affairs.

With the advent of a new era of extended dealings with many nations in advancement of both our peace-time and our war-time interests, the call for a supply of human material for the keeping in motion of the machinery of American commerce became increasingly peremptory and insistent. In the case of Georgetown University, this demand took on the form of requests by the Departments of State, Treasury, Commerce, Labor and Industry; by the American Federation of Labor on behalf of the mechanical, building and other productive trades; and by numerous corporations standing in the first rank as to capital and resources and extent of production—all looking to the founding of a school that would supply young men with educational equipment and develop in them ambition to adopt foreign trade as a calling and permanent career. In brief, it was felt that the inauguration of such a course would go far toward solving the problem of providing American representatives for American foreign trade.

It was indeed a difficult problem to solve; for—granted the existence of the need—what curriculum would be best, and where could be obtained the skilled instructors such an educational campaign would require? Fortunately, veteran teachers were in command. These leaders laid out a comprehensive plan of work; and thus there finally was evolved a course of study and scholastic procedure which in many ways resembled the facilities afforded by the famous *Ecole Libre des Sciences Politiques* of Paris. Indeed, the franchise of the Georgetown University Foreign Service School has features which point to the older French institution as in the main the guide and prototype of the American institution.

In languages, this educational programme is especially complete; for the embassies and other characteristic functions of a capital city afford material of a superlative quality, whenever

the individual attaché or official can be persuaded to devote to educational work the time required for teaching the language of his homeland. Philosophy, law, economics, history, and those other related branches (direct or collateral) which aid us in forming a well-rounded character—each and all are found responding to the same auspicious influence. In each of those branches, studious endeavors are assisted and made more fruitful and inspiring by the adjacent presence of experts whom the various departments have attracted to Washington and attached to their permanent staffs. Even though absent in person, their influence is felt, and to some extent dominates the situation; it is a constant reminder and spur to greater efforts, for at any moment the instructor and the instructed may be subjected to critical scrutiny by masters in their particular line, who can look behind every mask which conceals mere pretence, or hides incompetence in any of its other myriad forms.

Advancing steadily and by healthful stages, the Foreign Service School of Georgetown University, under the guidance of its able Regent, Edmund A. Walsh, educational pioneer in the field of preparation for official or commercial service, has now (after only eighteen months of existence) achieved a membership of 400 students; while approximately as many additional aspirants to the honors and emoluments of American foreign trade have found it necessary to turn their thoughts and their footsteps to other temples of learning. Doubtless much good human material has unwittingly been cast aside in the element thus discarded; but the School has conscientiously sought to cull out and select only those applicants who are comprised in that superior class who will earnestly pursue their allotted studies, and, after graduation, will tenaciously "stick on the job", in whatever foreign land their employment may call them to go.

Other courses may offer greater inducements; other instructors may drive home their truths with greater force and skill; but in one particular the Foreign Service School concedes precedence to no other institution of learning—namely, in conscientious endeavor to produce good scholars, good Americans, and, above all, men of ripe character who will be true to every interest of their employers, and by high quality of service, will best advance their own interests.



## APPENDIX

### NOTES ON OUR EARLY SHIPPING STATISTICS

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The period of protection of American shipping interests by means of discriminatory tonnage and customs duties dates from the duties levied by the various States during the period of the Confederation,<sup>1</sup> in retaliation for the British Order in Council of December, 1783, shutting American vessels out of the West Indian trade,<sup>2</sup> practically until 1832. (Complete reciprocity with all countries came some years later, but treaties with the important maritime countries had been concluded by that year).<sup>3</sup>

The statistics most commonly used in analyses of this period, and which have served as the basis for certain deductions by prominent writers on the subject, are the records of registered tonnage engaged in the foreign trade of the United States, as given in the annual reports of the Commissioner of Navigation. Since 1915 corrective footnotes have been printed with this table, but it seems worth while at this time to emphasize and amplify these corrections, which were made as a result of the writer's researches in 1913.<sup>4</sup>

As a matter of fact, the statistics of registered tonnage prior to 1831 are worthless as a basis for any economic study of our merchant marine. If charted these figures would show sharp falls in 1793, 1802, 1808, 1811, 1812, 1813, 1818 and 1829 to 1831, with fairly steady rises during the intervening years.<sup>5</sup>

<sup>1</sup> Hill, William, "The First Stages of the Tariff Policy of the United States," *Publ. Amer. Econ. Ass'n.*, vol. viii, no. 6, pp. 38-107.

<sup>2</sup> Anderson, *History of Commerce*, vol. iv, pp. 516-517.

<sup>3</sup> The laws relating to discriminatory duties are as follows:

Preferential duties on imports in American bottoms, July 4, 1789, U. S. Statutes at Large I-24.

Discriminating tonnage duties, July 20, 1789, I U. S. St. L. 27.

Change in system of preferential duties, 1790, I U. S. St. L. 180.

Repeal of discriminating duties, direct trade, 1815, III U. S. St. L. 224.

Various laws, III U. S. 334, 351, 369, 432, 605, 642. IV U. S. St. L. 2.

Removal of discriminating duties, indirect trade, 1828, IV U. S. St. L. 308.

The treaties involved are Great Britain, 1815 and 1827; France, 1822;

Sweden and Norway, 1816 and 1827; Denmark, 1826; Austria-Hungary, 1829; Hanseatic Republics, 1827 (while the treaty with the Netherlands was not concluded until 1839, that country enjoyed exemption under IV U. S. 2).

<sup>4</sup> Corrective footnotes have been carried in the annual report of the Commissioner of Navigation since 1903 as regards 1789-90 and 1818, and since the 1915 report as regards 1801-2, 1811 and 1829-30.

<sup>5</sup> Table of Documented Sailing and Steam Tonnage Constituting the Total Merchant Marine of the United States, 1789-1920. Report of the Commissioner of Navigation for 1920, p. 206.

Up to and including 1792, the figures are taken from the returns of tonnage paying duty, including repeated voyages of the same vessel,<sup>1</sup> so that these figures are on a different basis from those for subsequent years. In a report made in 1794 Alexander Hamilton, Secretary of the Treasury, gave the tonnage employed in the foreign commerce of the United States in 1792 as 289,394 tons,<sup>2</sup> so that 1793 really showed a gain.

From 1793, when reports of registered tonnage were first made, until 1800, the collectors of the various ports reported as the tonnage for their respective ports the difference between the total amount of registers issued and the total amount of the registers returned; thus continuing as existing tonnage a great number of vessels lost at sea or captured, whose registers had not been returned. The resulting cumulative error was so great that in 1798 and 1799 the nominal registered tonnage exceeded the tonnage paying duty.<sup>3</sup> An attempt at correction was made in 1800, but not completed until 1802. Estimating on the basis of partial returns, the Secretary placed the actual tonnage for 1800 at 517,000 tons, and for 1801 at 588,566 tons.

This same form of error was permitted to continue in the following years, so that by 1809 the registered again exceeded the dutied tonnage. The Secretary recognized the error in his report for 1810 and ordered the rolls corrected in 1811, which correction was not completed until 1812.<sup>4</sup> (The drop in 1808 apparently reflects the effect of the Embargo.)

The figures for 1813 and 1814 are obviously wrong, as some 26,500 tons captured by the British was only removed in 1815, 16, 17, 18 and 20.<sup>5</sup> The records for 1813 were destroyed in the burning of Washington.

The next correction for the same reason was made in 1818 and 1819, the Register of the Treasury stating in his report dated February 27, 1822, "The decrease of tonnage in this year (1818) arises principally from the registered tonnage having been corrected in 1818 by striking off all the vessels the registers of which were granted prior to 1815 and which were supposed by the collectors to have been lost at sea, captured," etc.<sup>6</sup>

The same form of cumulative error was permitted to continue until 1829, when the rolls were again corrected. Since that year corrections have been made annually.<sup>7</sup>

From the foregoing it appears that the fluctuations apparent in our early shipping figures were at least largely matters of bookkeeping, and also that the figures for the intervening years are of little use in analyzing the effect of legislation or economic factors upon our merchant marine.

<sup>1</sup> Letter, Joseph Nourse to Secretary of the Treasury, *Am. State Papers, Commerce and Navigation*, vol. i, p. 895.

<sup>2</sup> *Ibid.*, vol. i, p. 252.

<sup>3</sup> *Ibid.*, vol. i, pp. 494-499.

<sup>4</sup> *Ibid.*, vol. i, p. 876.

<sup>5</sup> *Ibid.*, vol. ii, pp. 42, 89, 163, 406-7, 516-7.

<sup>6</sup> *Am. State Papers, Com. & Nav.*, vol. ii, p. 648.

<sup>7</sup> Pitkin, *Commerce of the U. S.* (1835), p. 351.

Occasionally recourse is had in discussions of this period to the statistics of in ports and exports carried in American bottoms. Such of these figures as relate to the period prior to 1820, however, were condemned by the Hon. Eugene T. Chamberlain in a report to the Merchant Marine Committee as "resting on no competent authority",<sup>1</sup>

One set of figures is left us, the records of entries of vessels engaged in foreign trade, which seem, so far as the writer's investigations have gone, to be fairly accurate. A table showing these entries up to and including 1820 compiled by the Hon. Eugene T. Chamberlain was published in the *Hearings* before the Merchant Marine Committee in 1904 (Sen. Rept. 2755, vol. iii, p. 1764) and has been brought up to 1830 in the following statement (see p. 186):

<sup>1</sup> *Hearings*, Mer. Mar. Com., Sen. Rept. 2755, 58th Cong. 3d Sess., p. 1762-64.

Calendar years	American vessels tons	% of total	Foreign vessels tons
1789 .....	123,949	53	110,465
1790 .....	354,767	59	250,746
1791 .....	363,662	60	240,548
1792 .....	414,679	63	244,278
1793 .....	447,754	73	163,566
1794 .....	525,649	86	82,974
1795 .....	580,277	91	56,832
1796 .....	675,046	94	46,846
1797 .....	608,078	88	* 76,693
1798 .....	522,245	85	* 85,566
1799 .....	626,495	85	* 109,599
1800 .....	644,076	82	123,882
1801 .....	799,304	83	158,365
1802 .....	798,805	84	146,799
1803 .....	787,424	83	103,713
1804 .....	1,132,709	90	* 121,925
1805 .....	922,298	91	* 87,842
1806 .....	957,603	91	* 90,711
1807 .....	1,020,472	92	* 86,780
1808 .....	492,164	91	* 47,674
1809 .....	575,711	85	* 99,205
1810 .....	876,391	91	* 80,316
1811 .....	921,750	96	* 33,202
1812 .....	655,776	93	* 47,098
1813 .....	233,966	67	* 112,256
1814 .....	58,756	55	* 48,305
1815 .....	694,754	76	216,277
1816 .....	877,136	77	259,017
1817 .....	780,136	79	212,420
1818 .....	755,101	82	161,414
1819 .....	783,579	91	85,554
1820 .....	801,253	91	79,204
1821 † .....	765,098	91	81,526
1822 .....	787,961	89	100,541
1823 .....	775,271	86	119,468
1824 .....	850,033	89	102,367
1825 .....	880,754	90	92,927
1826 .....	942,206	89	105,554
1827 .....	918,361	86	137,589
1828 .....	868,381	86	150,223
1829 .....	872,949	86	130,743
1830 .....	967,227	88	131,900

\* Foreign tonnage taken from Pitkin's *Statistical Review*, p. 445.

† The figures for 1821 to 1830 cover fiscal rather than calendar years, but do not invalidate the comparison with previous years by percentages. (The actual tonnage of American vessels is still subject to some change, as there is some confusion between American owned registered and unregistered in the totals prior to 1820. The difference is so slight however, that any possible error will not change the percentage figures by more than 1 per cent.—E. E. J.)